

# FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

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Oil prices: don't  
rely on the  
market, Page 13

## NEWS SUMMARY

### GENERAL BUSINESS

## U.S. 'not ready for' interim arms deal

U.S. Defence Secretary Casper Weinberger said that the time was not right for the United States to propose an interim agreement in the Geneva negotiations on limiting intermediate-range nuclear missiles in Europe, as some Western European countries have urged.

In Madrid, it is expected that a new plan to end the impasse in the 35-nation conference on security and co-operation in Europe will be presented tomorrow.

In Washington, U.S. State Secretary George Shultz speaking before opening talks with Israeli Foreign Minister Yitzhak Shamir, said the time had come for King Hussein of Jordan to decide whether to join expanded peace negotiations with Israel.

### Arrests in Gdansk

Riot police in the Polish port Gdansk dispersed a protest march of more than 1,000 people which marked 15 months of martial law. Many arrests were reported.

### French doctor jailed

French doctor Philippe Augouard, captured with rebel Afghan forces, was jailed for eight years for spying, illegal entry and helping counter-revolutionaries, said Radio Kabul.

### China pessimistic

China said the continued presence of Vietnamese troops and further provocations on the Vietnamese border would lead inevitably to a worsening of Sino-Soviet relations.

### Unrest in Iran

Mujahedin, the Left-wing organisation opposed to Iran's rulers said its guerrillas and Kurds had killed or wounded more than 21 revolutionary guards in the north-west of the country.

### Ambush near Sidon

Seven Israeli soldiers were wounded in an ambush at a checkpoint near Sidon.

### Oil leak problem

Crude oil leaks from a badly-damaged Iranian oilfield are posing a grave environmental problem to all Gulf countries, and the Cabinets of Bahrain and Kuwait have discussed the issue.

### Soviet women slog

Thousands of Soviet women still do heavy manual work in factories and building sites, despite regulations barring them from such work, reported a Moscow newspaper.

### Piquet's home win

Brazilian Nelson Piquet, driving a Brabham, won the Brazilian Grand Prix, first of the season's Formula One championship races.

### No monkey business

World Wildlife Fund is campaigning against the use of monkeys in pictures with tourists, because of cruelty and corruption. Some operators are alleged to make \$300,000 a year.

### Polish bottle puzzle

Following a rise in the price of vodka in Poland, the number of breakages has trebled - yet identical bottles filled with vinegar never break, reported tax authorities in Krakow.

### Briefly

Mozambique admitted the disappearance of a MiG-17 combat aircraft five weeks ago.  
Avalanche killed at least 76 people in northern Pakistan.  
Jimmy Carter, former U.S. President, arrived in Amman for a two-day visit.

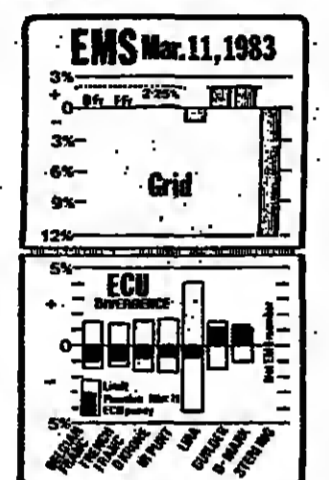
## Sterling fall 'aid for UK industry'

BRITISH industry has become marginally more competitive since sterling's value began to decline in the autumn, according to a poll of senior businessmen conducted for the Financial Times. Details, Page 5; Feature, Page 12

BELGIUM is to cut public expenditure by Bfr 40bn (\$848m), partly by increasing taxes and social security payments. Page 14

THE D-MARK was pushed by Chancellor Helmut Kohl's general election victory to the top of the European Monetary System, in which strains reached critical proportions last week.

A realignment of currencies was viewed as inevitable and this



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, the franc, shows rates from which no currency (except the lira) may move more than 2 1/2 per cent. The lower chart gives each currency's divergence from its 'central rate' against the European Currency Unit (ECU), itself a basket of European currencies.

The lira fell dramatically from its position the previous week at the top of the system, to be placed among the five currencies sharing bottom place.

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U.S. and China have opened a new round of talks in a bid to settle differences over textile quotas. Page 4

EUROPEAN shipping officials will attempt to prevent a threatened split with the U.S. over sea-borne trade policy at an inter-governmental meeting in London later this month. Page 14

EGYPT and Israel today resume talks about normalising trade. Page 14

CANADA'S only columbium mine will shut for three months at the end of March, because of a fall in demand for chrome steel, in which it is used.

UK GOVERNMENT is expected soon to name Graham Day as chairman of British Shipbuilders. Page 6

UNITED STATES is the subject of today's Statistical Trends feature. Page 3

SUN HUNG KAI Securities and Sun Hung Kai Bank of Hong Kong, both controlled by Mr. King King He, have announced restructuring involving minority shareholders.

Merrill Lynch and Paribas after SHK Securities revealed a 1982 loss of HK\$186.8m (U.S.\$28.1m). Page 16

P & O STEAM Navigation is near to agreement on selling Pandair, its worldwide air freight subsidiary to Pakhoed, a Dutch oil, property, and transport group. Page 23

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COMPANIES

## Socialists rally support in French local elections

BY DAVID MARSH IN PARIS

France's Socialist Government appeared last night to have won a political holding operation by succeeding in rallying its forces in yesterday's second round of the French municipal elections.

Early computer projections showed the Left, aided by a record turnout, yesterday limited some of the political damage suffered following the dramatic swing to the Right-wing opposition in the first round on March 6.

M. Gaston Defferre, the Interior Minister and a long-time comrade in arms of President Francois Mitterrand, appeared to have won the battle for Marseilles town hall, where he has been mayor for over 30 years. A defeat for M. Defferre - widely tipped after the strong showing by the opposition candidate on March 6 - could have sparked an immediate Government reshuffle as the Minister has said he would resign from the administration if beaten.

An important shake-up in the Government team, possibly involving the departure of M. Pierre Mauroy, the Prime Minister, had been widely expected in the event of a major setback for the Left in the municipal campaign.

Although the Socialists, Communists and their Left-wing allies still have lost a significant number of large towns compared with the last municipal polls in 1977, the size of the defeat now looks less serious than a week ago.

In other preliminary results last night, based on computer predictions, M. Jean-Pierre Chevènement, the Research and Industry Minister, appeared to have won the majority of Belfort. M. Mauroy, as expected, seemed to have been re-elected as mayor of Lille.

The link between the municipal polls and the political futures of several important members of the Government has given the second round of the elections more than usual significance.

M. Jacques Chirac, the Mayor of Paris and leader of the neo-Gaullist RPR, the main opposition party, who won the capital city by a convincing margin on March 6, is still likely to emerge as the main victor of the campaign.

But the apparent rallying of the Left in key large cities yesterday may enable the Government to carry out personnel changes and economic measures to calm speculation against the franc in a more considered atmosphere than had looked likely last week.

The temperature of the campaign has risen abruptly during the last week following the Left's unexpectedly severe setback on March 6. The two sides have swapped insults liberally, particularly over one of the most highly charged political issues, the number of immigrants in large cities.

Some Left-wingers - including M. Louis Mermaz, president of the National Assembly - have accused the opposition of trying to whip up racial intolerance.

An otherwise quiet polling day was marred by another violent act in Marseilles, already the scene of an explosion during the week, which killed two men thought to be preparing a bomb to go off outside a synagogue.

Two children were injured, one seriously, in an explosion late yesterday afternoon in an area of Marseilles with a large number of North African immigrants.

reference price of \$39 per barrel. Saudi Arabia's policy has consistently been one of not formally associating itself with any sharing arrangement.

Mr. Nigel Lawson, UK Energy Secretary, last week privately undertook to delay until the end of this week a decision by the British National Oil Corporation on the lifting of a new North Sea oil price, Opec delegates said.

He did so at Wednesday's meeting with Sheikh Ahmed Zaki Yamani, Saudi Oil Minister, together with Sheikh Ali Khalifa al Sabah and Dr. Mana Said al Otaiba, his counterparts from Kuwait and the United Arab Emirates.

Mr. Lawson's subsequent public reassurance on Friday that the UK Government did not wish to undercut the \$30 a barrel price in prospect for Nigeria was generally welcomed by delegations.

It is understood, meanwhile, that Mexico's last commitment to defer its pricing position until there is an Opec agreement was to expire at midnight yesterday. Mexico has indicated its support for the nation's drinkers and motorists.

This would help to minimise the impact on inflation, which the Treasury is now expecting to be rather higher by the end of the year as a result of the depreciation of sterling.

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## Opec deal hinges on Saudi output cut

By Richard Johns in London

A CUT in Saudi Arabia's oil production by at least 600,000 barrels a day - from 5.5m b/d to 4.9m b/d - was still required last night for agreement by the Organisation of Petroleum Exporting Countries (Opec) on a system of production quotas.

Indications last night were that Saudi Arabia would come down to 5m b/d as part of the final settlement, but some kind of concession from the United Arab Emirates or Venezuela would also be required for a compromise on a production-sharing programme under a ceiling of 17.5m b/d agreed upon by all members.

Another unresolved difficulty was understood to involve Saudi Arabia's objections to Opec officially spelling out in a resolution the details of a programme.

Most members believe this to be necessary if the market is to be convinced of Opec's ability and will to discipline itself in support of a new

reference price of \$39 per barrel. Saudi Arabia's policy has consistently been one of not formally associating itself with any sharing arrangement.

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## Mexico now expects a small surplus

BY WILLIAM CHISLETT IN MEXICO CITY

THE BANK of Mexico has radically revised its current account projections for this year and is now forecasting a small surplus for the country of \$303m after originally estimating a deficit of \$2.7bn.

The central bank, which has not made the projections public, believes that this dramatic turnaround is possible because of declining world interest rates and a sharp drop in the country's imports because of the fierce recession.

The projections, drawn up last week, take into account a loss of \$3.3bn in oil-sector exports because of a fall of \$3.48 a barrel in the price of Mexico's oil averaged over the year, and a drop in the volume of shipments.

Mexico is expected to announce its own oil price cut this week, which will be retroactive to February 1.

Imports will fall from \$14.5bn to \$11.8bn and interest payments on the total current foreign debt of \$83bn will fall from \$11.3bn to \$9.8bn, according to the central bank.

The figures, however, are at variance with the projections presented by the Finance Ministry to its international bank creditors on March 3, when Mexico signed its \$5bn commercial loan in New York.

According to figures prepared by the International Monetary Fund (IMF), based on official Mexican data, Mexico will run a current-account deficit this year of \$3.4bn. Imports will be \$15.2bn and interest payments on the public-sector portion of the debt \$9.2bn. (The central bank's equivalent figures is \$7bn).

A senior government economist said, however, that when Mexico and the IMF negotiated a \$3.9bn package last autumn, both sides agreed to overestimate the imports and interest payments needs so that the commercial banks would have to lend Mexico new money to avoid an economic collapse and enable the country to service its debt.

M. Jacques de Larosiere, the IMF managing director, told Mexico's creditors last November before the final agreement was signed in December, that unless the banks agreed to commit \$5bn of new money, the agreement ran the risk of not being approved by the IMF board as it was not adequately financed.

The economist said the tactic of overestimating the figures had to be employed because Mexico needed the \$5bn as a cushion against the expected oil price cut, uncertainty about interest rates and outflows of capital.

Mexico's foreign reserves are at a precariously low level.

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## UK budget to spread £2bn in tax benefits

BY PETER RIDDELL AND MAX WILKINSON IN LONDON

SIR GEOFFREY HOWE, UK Chancellor of the Exchequer, will warn in his fifth budget speech tomorrow that exceptional uncertainties about the oil price and the exchange rate may force him to revise his financial arithmetic later in the year.

He spent the weekend revising his speech for a budget which will spread a little under £2bn of tax cuts and benefit increases across a wide range of voters.

In the last 10 days he has been trying to reconcile the need to maximise the political impact of a "give-away" budget with the squeeze imposed by the possibility of a sharp fall in the oil price.

Every \$5 drop in the North Sea oil price would wipe about £2bn (\$3bn) off the Government's revenues, more than the total which he is intending to give in tax relief.

In view of the uncertainty, he is expected to aim for a public sector borrowing requirement in 1983-84 of £2bn to £3.5bn, which would allow him to make tax cuts to add a little more than £1.5bn to borrowing, equivalent to about £2bn in overall tax cuts. However, Sir Geoffrey will caution that any big movement in the oil price could substantially increase the Government's need to borrow.

He will present this year's budget as one for the people in contrast with last year's "budget for industry." His main measures will be:

● An increase in income tax thresholds and allowances by 10 per cent to 12 per cent, about twice the increase which would be needed to keep pace with inflation.

● An increase in social security benefits which will be "generous" compared with the minimum rise needed to keep up with inflation. Pensioners will be allowed to keep most, if not all, of last year's 2.7 per cent gain above inflation. This will give them a rise of about 6 per cent.

The unemployed will get a similar rise in benefits, but this figure will include the restoration of a temporary 5 per cent cut suffered two years ago before benefits were taxed.

● Child benefit will probably go up by about 10 per cent, taking it from £5.85 to about £6.50 a week.

● The Chancellor will remind MPs that the employers' National Insurance charge is to be cut to 1.5 per cent in April, as he announced in November, but he is unlikely to make any further cut at present. He will point out that industry has already reaped substantial benefits from the 15 per cent depreciation of sterling since November.

● Another instalment of the package of measures to encourage enterprise will be announced. This will include measures to help small businesses, with some tidying up of capital gains tax rules, and a go-ahead for free ports.

Taxes on beer, wine, spirits, tobacco and petrol will all rise roughly in line with the expected inflation rate, although the increase will be the smallest for at least a decade. There are likely to be some concessions in real terms for the nation's drinkers and motorists.

This would help to minimise the impact on inflation, which the Treasury is now expecting to be rather higher by the end of the year as a result of the depreciation of sterling.

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## Nkomo arrives in London as Mugabe guarantees his safety

BY QUENTIN PEELE IN LONDON AND TONY HAWKINS IN HARARE

PROSPECTS APPEAR bleak for an early reconciliation between Mr. Robert Mugabe, Zimbabwean Prime Minister, and Mr. Joshua Nkomo, the opposition leader who fled the country last week claiming his life was in danger.

In Harare, Mr. Mugabe promised Mr. Nkomo's safety would be guaranteed if he returned home. But Mr. Nkomo, who arrived in London yesterday, insisted on a "face-to-face" meeting with a Government Minister before he would go back.

Dr. Nathan Shamuyarira, Minister of Information, said yesterday in London that "any meaningful discussions can only take place in Harare." He also denied that Zimbabwe was on the verge of civil war following Mr. Nkomo's flight. He declared that the Government's military operations against dissidents in Matabeleland - which precipitated the veteran Zapu nationalist

leader's departure - had been successfully completed.

However, it is clear that both the British and Zimbabwean governments have been considerably embarrassed by the self-imposed exile of Mr. Nkomo, who fled to Botswana last Tuesday after his home in Bulawayo, southern Zimbabwe, was ransacked by soldiers.

The Zapu leader received a decidedly unenthusiastic welcome when he arrived at Heathrow airport on a British Airways flight from Johannesburg. He negotiated permission to stay just one week in the country, pending consideration of a two-to-three-week extension, after giving an assurance that he would not engage in political activity. On his arrival, Mr. Nkomo said he was determined to return home once he was assured of his safety.

Dr. Shamuyarira admitted that Zimbabwe's reputation had been damaged in the eyes of both poten-

tial foreign investors and aid donors by the recent events in Matabeleland - in which government soldiers have been accused of widespread brutality and killings - and did his best to repair the damage with the first vigorous public defence of the operations.

He said that 3,000 people had been detained in the military action against dissidents in Matabeleland, many of whom profess loyalty to Mr. Nkomo. About 1,800 are likely to be released shortly, but the others, including army deserters, are to be held for further questioning.

The Minister said that the Government had launched the "massive military operation" because "we could not let a few deserters disturb the hard-won peace.... Robberies and killings of innocent people had become so prevalent that ordinary people could no longer go about their normal business in safety."

Continued

## OVERSEAS NEWS

## Riot police disperse Gdansk protesters

By Christopher Bobinski in Warsaw

RIOT POLICE in the Polish city of Gdansk dispersed a demonstration of about one thousand people who marched yesterday from a church to a nearby shipyard monument to mark the passing of 15 months since martial law was imposed.

The crowd, which had attended a service of the church, chanted pro-Solidarity slogans and demanded freedom for Ms Anna Walentynowicz, a union activist at present standing trial.

The march was dispersed within 40 minutes, and witnesses reported many arrests. Meanwhile, deputy Finance Minister, Mr Mieczyslaw Mieszcankowski, has said major price increases should not be imposed in Poland, at least until the autumn.

The statement was made against the background of an important debate in the Government on whether prices should rise. Leaders fear any ill-judged decisions could bring angry street protests.

Speaking to the Warsaw daily paper, *Zycie Warszawy*, at the weekend Mr Mieszcankowski argued for a lower rate of inflation this year than the one at present envisaged by the Government. He dismissed the main argument for price increases put forward by Mr Zigmunt Krasiński, the Prices Minister. Mr Krasiński has argued that price rises are essential to mop up the "inflationary overhang" — some 500 billion zloties of spending power more than the value of the supply of goods.

Mr Mieszcankowski says, however, the overhang is held by the wealthiest 10 per cent of the population, while the remaining 90 per cent are barely making ends meet. "Price rises will, at most, barely trim the overhang, while real living standards for the basic mass of the population will fall. Not only will this annoy people but it will be ineffective."

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## Walk in the woods pact still relevant in INF talks

BY BRIDGET BLOOM, DEFENCE CORRESPONDENT

A COMPROMISE reached during a walk in the woods last summer by the American and Soviet ambassadors to the European nuclear arms talks in Geneva is once again emerging as a possible way of kicking life back into the stalled disarmament negotiations between the two superpowers.

Last July, as they walked in the wooded Jura foothills, Mr Paul Nitze, leader of the U.S. delegation to the intermediate nuclear force negotiations (INF), and Mr Yuri Kvitsinsky, his Soviet counterpart, drew up a potential compromise for limiting the numbers of nuclear weapons in Europe.

Their talks were highly classified, while their arms control package, which remained secret until only a few weeks ago, was ultimately rejected by both Washington and Moscow.

Yet the package remains relevant today, in the wake of the West German election. European Governments in NATO want the U.S. to make a new offer in Geneva which might have real hope of acceptance by the Russians and might also persuade their critical electorates that the West is making every effort to limit the deployment of the U.S. Cruise and Pershing and the Russian SS20 missiles.

The Geneva talks to limit deployment of these weapons have been going on for nearly 18 months. Last July's "Jura package" was the first and so far the only time that both sides have revealed what the fall-back could be behind their public positions.

So it remains the best — if not a very comforting — guideline to what sort of offer could be made and agreement negotiated as the deadline for deployment of the new U.S. missiles approaches.

The Geneva talks and the planned U.S. missile deployment are the twin tracks of NATO's "dual-track" decision of 1979. To match the Soviet deployment of new medium-range SS 20 ballistic missiles, NATO decided to deploy new U.S. missiles in five European countries, beginning in 1983.

The numbers were almost pulled out of a hat — 108 Pershing 2 missiles to replace deployed in West Germany, while the first batches of 472 cruise missiles were to be stationed in the UK and Italy at the end of this year, to be followed by more cruise missiles in Belgium, Germany and the Netherlands from 1984-86.

President Ronald Reagan preempted the opening of the talks in November 1981 by publicly declaring the so-called zero option: NATO would not deploy any of the new missiles, provided the Soviet Union dismantled all its SS20s — as well as its older SS4s and SS5s.

Mr Kvitsinsky rejected this out of hand. He argued that the U.S. had no need to deploy any new missiles in Europe because — if you counted in the British and French nuclear forces, and NATO's nuclear capable aircraft — a balance between the two sides already existed. The Soviets proposed

that this balance, of around 1,000 nuclear systems each, should be reduced to 300 a side by 1980.

This Soviet proposal was rejected by Mr Nitze: Britain and France have always refused to have their nuclear forces counted in the superpower balance. The Soviet proposals would not only prevent the U.S. matching the SS20s with new missiles but would mean an actual reduction in U.S. current nuclear strength in Europe.

It was in an attempt to break this deadlock that Mr Nitze and Mr Kvitsinsky had their "what if...?" conversation in the Jura woods.

Both men said they were not committing their governments by exploring ideas which fell considerably short of their public positions although it seems inconceivable that either had not cleared the parameters of what they were offering with

their home governments. Senior Washington officials now say that Mr Nitze had not done so. They add that the package worked out was some 80 per cent of Mr Nitze's ideas and only 20 per cent of Mr Kvitsinsky's.

The walk in the woods package had four key elements:

● There should be an equal, reduced ceiling on U.S. and Soviet medium range missiles and aircraft.

● The British and French forces should not be counted in to that balance.

● The U.S. would deploy cruise missiles under its ceilings but not Pershing 2s.

● There would be a freeze on current Soviet deployment of SS20s on its eastern border and some dismantling of missiles now deployed in Europe.

The ceiling set was 225 systems each, with a maximum of 75 missile launchers and 150 nuclear capable aircraft. Given

hopes that the Madrid talks, now in their third year, may be brought to a conclusion in the weeks following the Easter break, possibly by the end of April. The present session, which resumed last month is due to adjourn on March 25.

The final documents would set a mandate for a conference on disarmament in Europe, most probably taking place in Stockholm and devoted to the first instance to confidence-building measures, such as exchange of information and limits on military exercises.

Such a conference was first proposed by France in 1978. At the same time, another review conference on the 1975 Helsinki agreements is to be organised following Madrid, as well as an anniversary meeting in Finland in two years' time.

Sweden, Austria and Switzerland have been particularly active in seeking a new basis for agreement. The document is expected to be presented on behalf of the neutral and non-aligned countries to the next plenary session, grasping the U.S., Canada and 33 European states.

United Nations at the end of September and though by that time Washington had decided to reject the deal Moscow did not formally say it was off until Mr Kvitsinsky returned to Geneva in early October.

(This was apparently about the time Washington's NATO allies were informed of the Jura package. Certainly there had been no prior consultation on the matter at all.)

In the subsequent chilly atmosphere, no progress was made. Following Mr Brezhnev's death, Mr Yuri Andropov, the new Soviet leader announced a new proposal which would limit the number of Soviet missiles to 162 — the exact number of British and French missiles.

The U.S. has rejected that proposal, formally tabled earlier this month at Geneva, as offering no more than the original Soviet proposal of a year ago.

It is far from clear whether either Washington or Moscow is ready for a compromise. But if there is to be a new deal — whether worked out during another walk in the woods, or offered publicly by either side — it could well provide for even less than was in the Jura package on two grounds: Mr Nitze's abandonment of the Pershing 2s would give NATO no direct ballistic missile counter to the SS20. It would also mean that unless the deployment of cruise missiles was brought forward, no new missiles would be based in West Germany. The key forward area of NATO for at least two more years.

Moscow apparently objected because it undermined its contention that a balance already

existed in Europe. It is not clear whether Mr Kvitsinsky exceeded his brief by not counting in the British and French forces. It also seems that the Pentagon would have liked a lower ceiling on the Soviet Far East missiles while Moscow wanted a higher one.

The key points which emerge for the future are that the U.S. also seems to be at arm's length from the British and French forces. A basis for negotiation can therefore exist.

Less comfortable is the fact that any agreement which seems remotely negotiable must now include the deployment of new U.S. missiles in Europe. The question is not whether, any more, but how many.

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Mr Nitze... ruled out French and British nuclear forces in negotiations

## Shultz call on King Hussein

BY REGINALD DALE, U.S. EDITOR, IN WASHINGTON

MR GEORGE SHULTZ, U.S. State Secretary, yesterday said the time had come for King Hussein of Jordan to decide whether to join expanded peace negotiations with Israel as proposed by President Ronald Reagan last September.

Mr Shultz spoke before starting talks in Washington with Mr Yitzhak Shamir, the Israeli Foreign Minister, on the lengthy negotiations aimed at the withdrawal of all foreign forces from Lebanon.

Mr Shultz also met Mr Elie Salem, Lebanese Foreign Minister, in Washington at the weekend. But officials said there was no "mini-

Camp David" in the making and warned against expectations of an immediate breakthrough. There were no plans for Mr Salem and Mr Shamir to meet.

Nevertheless, hopes have been rising in Washington that progress may finally be made on troop withdrawals after an apparent softening of Israel's original tough conditions and the departure of Mr Ariel Sharon as Defence Minister.

Mr Shamir came to Washington at his own request to discuss the security of Israel's northern frontier after its forces leave Lebanon. The State Department said that it had

no new plan to offer — although it has been suggested that U.S. troops might help patrol the area until the Lebanese Army can take over.

Mr Shultz, in an interview with the Washington Post, said he did not want to set a deadline for King Hussein's decision on whether to join peace talks that would include Palestinian representatives. However, he added: "I think it's time to move."

King Hussein has indicated that he cannot negotiate until there is an agreement on an Israeli troop withdrawal from Lebanon.

## UK-Iraq talks on Hawk aircraft plant

BRITISH AEROSPACE is still negotiating for the sale of a plant for the assembly of Hawk aircraft in Iraq according to officials in London. If a contract was agreed the order would be worth more than £1bn (\$1.5bn).

Iraq is Britain's largest defence market in the Middle East, despite Government restrictions against the supply of "lethal" weapons while the war with Iran continues. In 1981 defence related exports to Iraq from Britain were worth £250m.

## Surinam to seek foreign loans

BY ANDREW WHITLEY IN PARAMARIBO

THE military-backed government of Surinam, the Netherlands' former South American colony, is looking to the international financial community for loans this year, for the first time, following last December's cut off in Dutch development aid.

The Dutch Government suspended an aid programme worth a total of £1.38bn (\$1.4bn) over 10 years in response to the killing on December 8 of 15 prominent Surinamese said to be conspiring to overthrow the three-year-old regime of Col Desi Bouterse.

To make up from a current account shortfall in 1983, preliminarily estimated at between 150m and 160m Surinam guilders (\$88m), Mr Winston Caldera, the Finance and Planning Minister, said in an interview here that Surinam intended to draw down its reserves by SG 10m (\$38.5m) and raise a further SG 60m (\$50m) abroad.

Mr Caldera, who is also a member of the ruling Policy Centre, said applications for project assistance would be made to the Inter-American Development Bank (IDB), the European Development Fund, and the European Investment Bank.

He was also hopeful of loans from Western commercial banks, an optimism not shared by foreign observers here, in the light of the regime's record of instability.

In addition, Surinam intends to request assistance — unofficially calculated at \$30m — from the International Monetary Fund's compensatory financing facility because of current low prices for its primary product exports, notably bauxite.

According to the Government, Surinam's foreign exchange, gold and SDR reserves were SG 310m (\$170m) at the end of 1982, the equivalent of four months' imports.

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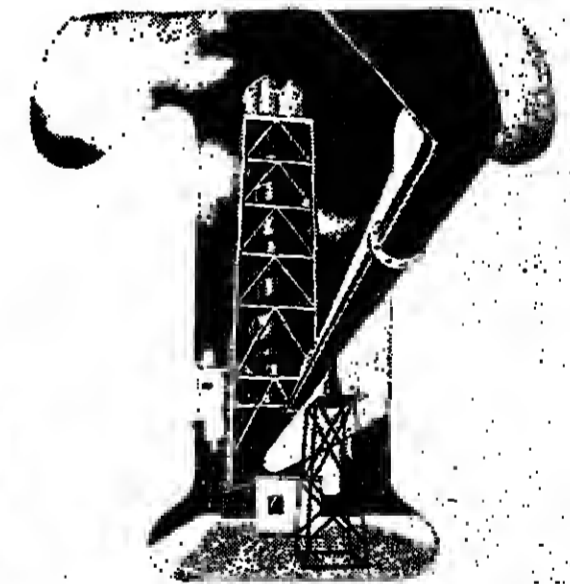
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## STATISTICAL TRENDS: The U.S.

Room for optimism  
on industry recovery

THE RECENTLY announced 3.6 per cent increase in the index of leading indicators has been hailed as evidence of the recovery of the U.S. economy. Since such components as authorisations for new housing, average manufacturing workweek and manufacturing new orders are all rising, the optimism is understandable.

There are other encouraging figures. Personal consumption expenditure rose in the last quarter of 1982, compared with the corresponding quarter of 1981, and the prime rate also continues to fall. However, the Composite Index is heavily influenced by financial factors such as the Standard and Poors 500 Stock Index which can be a misleading indicator of overall productive activity.

Furthermore, the 3.6 per cent increase is based on a December figure which has been revised. Originally it was enthusiastically announced as

Commentary by Our Economics Staff: data analysts by Financial Times Statistics Unit charts and graphs by Financial Times Charts Department.

a 1.5 per cent increase on November, this has now been reduced to a 0.6 per cent rise.

Over 1982 as a whole, industrial production fell by 8.2 per cent, the third consecutive annual decline. Capacity utilisation was following the same trend with the level in the steel industry falling as low as 30 per cent during the course of the year although recent figures suggest increased activity. Corporate profits, even in the electric and electronic industries also showed the impact of recession. Profits overall were approximately 50 per cent lower in the fourth quarter than in the same period of

1981, while for the year as a whole they represented less than 6 per cent of the GNP, the lowest level since the war. The average weekly number of business failures rose by roughly 50 per cent during the year and still shows no sign of diminishing.

Business fixed investment contracted sharply in 1982 having held up in previous years. Spending on many types of capital equipment fell, with heavy industrial machinery and transportation equipment bearing especially large losses. More cuts are expected in 1983. For instance, General Motors plans to spend about \$600 million compared with \$800 million two years ago. In any event, with manufacturing capacity utilisation so low, the suppliers of capital equipment face another difficult year, whatever happens in the rest of the economy.

Government expenditure played an important role with the increased military spending providing a much needed cushion for many companies, especially in the aerospace industry. Boeing's sales to the Government jumped by over \$1bn to \$3.2bn during the year and there are orders in hand worth \$4.1bn.

In other areas, Government policies have the opposite effect. Government employment has fallen, its share of non-agricultural employment has dropped by 0.3 per cent of a reduced total since 1980. On the international front, loans to the developing world have declined—a slowdown which, if continued, could retard the U.S. recovery when it does come.

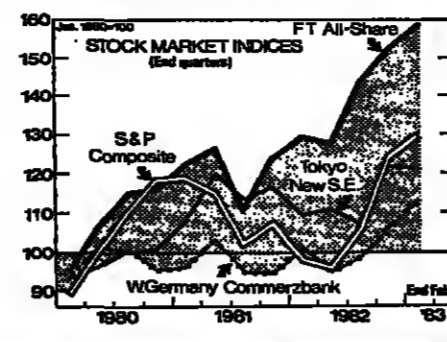
Overall, there seem increasing grounds for optimism: the number of different indicators showing favourable trends is growing, while even the \$1bn rise in imports of manufactured goods in the January trade figures has an encouraging aspect.

## Economy

	INFLATION (in %)			
	U.S.	W. Germany	Japan	Italy
1973	6.3	6.9	11.8	10.8
1974	10.9	7.0	24.3	19.1
1975	9.2	5.9	11.9	17.0
1976	5.8	4.2	9.3	14.8
1977	6.5	3.6	8.1	17.0
1978	7.5	2.8	3.8	12.1
1979	11.3	4.1	3.6	14.7
1980	13.5	5.5	8.0	21.2
1981	18.4	5.9	4.9	17.8
1982	6.2	5.3	2.6	16.4

Source: IMF, Eurostat

## Finance



Source: IMF, Eurostat

	PERSONAL CONSUMPTION EXPENDITURE		PRIME INTEREST RATES	
	Total (\$bn)	Per Capita (\$)	U.S.	UK Japan W. Germany
1960	324.9	452.0	1.797	2.501
1970	621.7	672.1	3.031	3.277
1980	1,467.2	930.5	7.323	4.087
1981 I	1,799.9	951.1	7.858	4.152
1981 II	1,812.4	944.6	7.926	4.115
1981 III	1,868.8	951.4	8.120	4.134
1981 IV	1,864.5	943.4	8.167	4.088
1982 I	1,919.4	949.1	8.300	4.104
1982 II	1,947.8	955.0	8.406	4.121
1982 III	1,986.3	958.3	8.550	4.116
1982 IV	2,034.6	968.0	8.735	4.156

\* Quarterly data at seasonally adjusted annual rates. Source: U.S. Department of Commerce

	PRIME INTEREST RATES			
	U.S.	UK	Japan	W. Germany
1980 IV*	21.5	15.0	8.16	11.5
1981 I	17.0	13.0	7.74	13.75
II	20.0	13.0	7.18	14.25
III	19.5	14.0	7.10	14.25
IV	15.75	14.5	6.95	13.0
1982 I	16.5	12.0	6.42	12.0
II	16.5	12.5	6.34	11.50
III	13.0	10.0	6.31	10.5
IV	11.5	10.0	6.35	8.75
1983 end Feb.	10.5	11.0	6.30	8.75

\* End quarters.

Source: Morgan Guaranty

## DEFENCE EXPENDITURE

	Expenditure (\$bn 1972)	Annual % change	% of GNP
1973	68.3	-6.6	5.4
1974	64.9	-2.0	5.4
1975	66.4	-0.7	5.4
1976	64.9	-2.3	5.0
1977	65.4	0.8	4.8
1978	65.7	0.5	4.6
1979	67.4	2.6	4.6
1980	70.1	4.0	4.8
1981	73.5	4.9	4.9
1982	80.1	9.0	5.8
1983	88.3	10.2	5.8

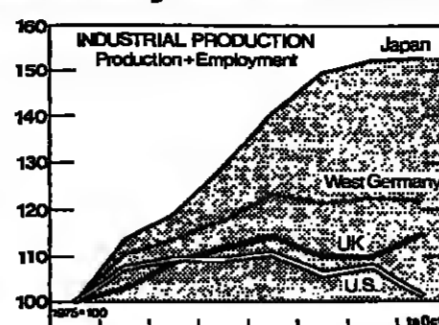
Source: U.S. Department of Commerce

## U.S. BANKS SYNDICATED LOANS

	1980	1981	1982
Latin America	7,044	15,523	9,098
East Europe	565	188	123
Opec	3,556	3,978	2,300
Far East	2,739	4,469	3,708
Non-oil developing Africa	263	237	195
West Europe	3,954	5,078	5,706
North America	6,033	53,259	20,542
Total	24,154	82,732	41,672

Source: Euromoney

## Industry



## CORPORATE PROFITS

	Seasonally Adjusted Annualised Rates		Current Prices	
	1977	1980	1982 I	1982 II
Total	209.40	199.45	207.47	167.20
Domestic	178.97	169.17	184.62	150.30
Financial	30.32	29.17	22.67	20.00
Non-financial	148.65	140.00	161.95	130.30
Manufacturing	85.55	74.50	86.27	57.70
Primary metals	3.50	2.90	4.13	-3.10
Fabricated metals	5.17	4.38	4.87	4.40
Non-elect. mach.	8.90	7.20	9.27	8.30
Elect./electronics	5.05	4.38	5.05	3.60
Motor vehicles	4.47	-4.95	-1.15	-4.10
Chemicals	7.12	6.72	8.17	6.50
Petroleum/coal	20.72	27.95	26.45	25.40

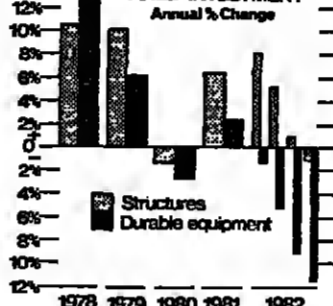
Source: U.S. Department of Commerce

## CAPACITY UTILISATION (%)

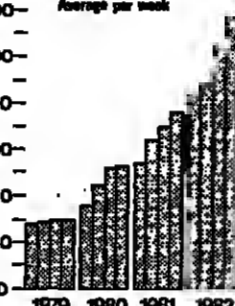
	Seasonally adjusted			
	All manuf.	Primary metals	Cars	Chemicals
1980 I	60	82	70	82
II	74	69	60	76
III	74	66	67	78
IV	78	77	70	78
1981 I	78	79	69	78
II	78	77	73	77
III	76	74	60	75
IV	72	63	51	70
1982 I	72	61	61	72
II	71	52	67	70
III	69	48	58	69

Source: U.S. Department of Commerce

## REAL BUSINESS FIXED INVESTMENT



## BUSINESS FAILURES



## ELECTRONICS INDUSTRIES

	Factory sales	Exports	Imports	Employees
1977	\$bn 60.57	\$bn 11.56	\$bn 8.79	1,212.7
1978	72.81	13.25	10.66	1,316.7
1979	87.83	16.66	11.74	1,453.7
1980	108.11	20.10	13.31	1,533.4
1981	113.77	23.54	19.69	1,582.3
1982*	116.50	24.24	21.11	

\* Year to October at annualised rates.

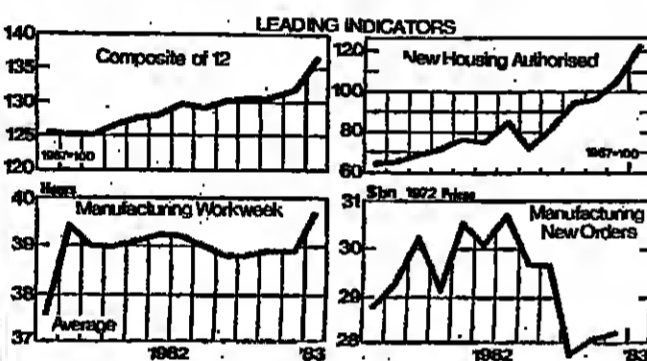
Source: Electronics Industries Assoc.

## Employment

## REGIONAL UNEMPLOYMENT

	000's	% of labour force
N. England	444.0	7.2
Mid East	1,868.5	9.4
Gr. Lakes	2,533.9	12.7
Plains	633.7	7.5
South East	2,557.9	10.1
South West	852.3	7.9
Rockies	268.0	8.0
Far West	1,688.8	10.5
Alaska	17.3	8.7
Hawaii	35.6	7.8
U.S.	11,574.0	10.5

Source: U.S. Department of Labor

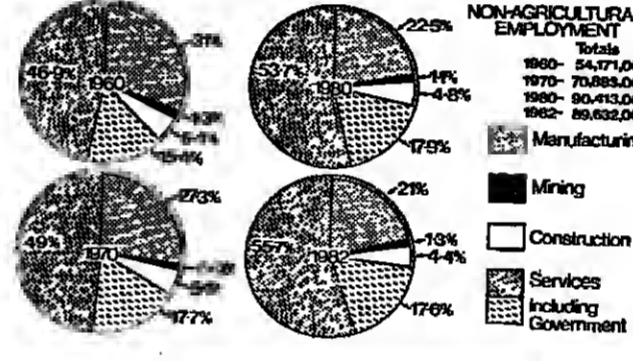


## INDUSTRIAL STOPPAGES\*

	U.S.	UK	W. Germany	Japan	Canada
1975	990	540	10	390	2,810
1976	1,190	300	40	150	2,550
1977	1,070	840	—	70	830
1978	1,070	840	370	60	1,930
1979	890	2,430	40	40	1,460
1980	830	1,180	10	50	1,530
1981 Prov.	590	310	—	20	1,790

\* In mining, manufacturing, construction, transport industries.

Source: ILO



## Trade

## MANUFACTURED IMPORTS

	Value 1981 (\$m)	% of total	Import penetration ratio* %
Total manufactures	171,355	100	6.3
Clothing/textiles	7,750	4.5	7.4
Petroleum refining	15,820	9.2	9.3
Primary metals	20,648	12.0	8.2
Electric/electronics	18,827	11.0	8.4
Transport equipment	34,068	19.9	9.7
Motor vehicles	16,068	9.4	7.8
Mach. (non elec.)	15,090	8.8	5.7
Instruments	5,638	3.3	7.2

\* Imports to new supply. † 1977.

Source: U.S. Department of Commerce

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## WORLD TRADE NEWS

## U.S. starts talks with China on textiles

By Mark Baker in Peking

CHINESE and U.S. trade officials began the fifth round of talks aimed at settling their dispute over textile quotas this weekend.

The U.S. has imposed unilateral restrictions on some Chinese textile exports since mid-January following the failure of the last session of talks at which the U.S. tried to set new quotas on existing restricted items. China retaliated several days later by banning new purchases of U.S. cotton, chemicals fibres and soybeans.

After the breakdown of the last negotiating session, the U.S. negotiator, Mr. Peter Murphy, said the gap between the two sides was "significant." There has been no public indication that it has narrowed.

The visit to Peking last month by Mr. George Shultz, the U.S. Secretary of State, included discussion of the textile row, but this does not appear to have softened the Chinese position. It is believed that the U.S. wants to limit the growth of its imports of Chinese textiles in about 20 categories already covered by quotas to less than 2 per cent a year over the next three years. China is believed to want a 6 per cent annual growth rate.

Chinese exports to the U.S. in these categories grew by about 4.25 per cent last year. While China is demanding special treatment as a "secondary supplier," the U.S. has pointed out that China's textile exports to the U.S. have grown rapidly in the last few years, and now represent about 10 per cent of total U.S. textile imports.

The U.S. has already persuaded its principal textile suppliers—Hong Kong, Taiwan and South Korea—to agree to hold their export growth to quota-affected areas to 1 per cent a year.

The danger in the continuation of the dispute is that the Chinese might use their big imports of American wheat as a bargaining lever, escalating what at this stage is a relatively minor trade war.

Short of that, it appears that China will suffer more than the U.S. by the continuation of the dispute. While refusing to agree to new quotas, China is being held at last year's levels.

Leslie Colitt sees depressing prospects for exporters to Eastern Europe at the Leipzig fair

## Comecon drive to pay debts hits Western companies

THOUSANDS of Western company representatives have converged on the Leipzig Trade Fair to see if they can boost their flagging sales to the Comecon countries at a time when the East Europeans are desperately trying to increase exports to pay off their heavy debts to the West, while curtailing imports.

The giant Leipzig Spring Fair, which opened yesterday, remains a barometer of East-West trade. At the moment it is showing "little change."

The depressing story for Western exporters is reflected in the statistics. Poland's imports from OECD countries fell 27 per cent, Czechoslovakia's 6.5 per cent and Hungary's 7.3 per cent in the first 11 months of 1982, while the Soviet Union's purchases rose 5.4 per cent in the first nine months. West Germany, the East's leading trading partner, increased its exports to all state trading countries, excluding East Germany, by a nominal 4.3 per cent to DM 20.5bn (£5.6bn), while its imports from these countries rose 10.7 per cent to DM 21.3bn.

The West German trade deficit of DM 800m compared with a surplus of DM 2.2bn in 1981 and of DM 6bn in 1978. Excluding trade with East Germany and the Soviet Union, West Germany's trade last year

with the Comecon countries and China actually fell 4 per cent.

Western capital goods manufacturers at the Leipzig Fair are convinced there will be a few major orders for plant and equipment from Eastern Europe until after 1985, when the new five-year plans have been enacted. They hope for contracts with the Soviet Union connected with the gas pipeline expansion programme before then however.

The representative of one large West German supplier of turnkey plants to Eastern Europe noted that the current Comecon freeze on new capital investments is damaging its future ability to compete on world markets with Western companies which have invested heavily in new plant and equipment in spite of the recession.

Large West German firms which deal with East Germany are somewhat more optimistic about their immediate prospects. They note that in its current hard currency squeeze, East Germany has turned to West Germany for raw materials and industrial goods which it bought from other OECD countries in past years.

East Germany last year raised its imports from West Germany by 16 per cent while reducing its imports from other OECD countries by 53 per cent. This trend, which helped

slight prices and weakening demand, rather than quality or delivery problems, were the main factors limiting British exports to West Germany last year, John Davies writes from Frankfurt.

This is indicated by a survey of 258 enterprises carried out by the British Chamber of Commerce in Germany.

Price difficulties, stemming largely from British inflation and the exchange rate, were seen as the chief hindrance to sales expansion, although not to the same extent as in 1981.

In contrast to earlier surveys, poor demand overtook problems with deliveries and quality to become the second most frequently named obstacle. Some companies complained of general recession, while others

reported short-time working and bankruptcies among German customers or overcapacity in German markets.

Less importance was attached to other problems such as the image of British products, lack of suppliers' support through promotion or servicing, or trade barriers such as regulations on safety and standards.

The proportion of enterprises reporting improved sales last year dropped to 30 per cent from 44 per cent two years earlier, but a further 33 per cent were satisfied with unchanged results, compared with 15 per cent in 1980.

The remaining 37 per cent reported lower sales or were unhappy with an unchanged level of sales, compared with 41 per cent two years earlier.

boost East-West German trade by 13 per cent to DM 14bn last year, is expected to continue this year. The shift in East German trade took place because the barter-like commerce between the two German states is conducted in units of account equal to the Deutsche Mark which do not cost East Germany hard currency.

One sobering thought for non-West German companies in Leipzig is that West Germany's exports to East Germany last year rose from 50 per cent to 64 per cent of East Germany's entire imports from the West.

From Britain, 120 companies are among the exhibitors in Leipzig although UK exports to East Germany last year fell 30 per cent to £63.7m while imports rose 28 per cent to £133.7m. The import figure however is considerably dis-

torted by large East German sales of silver in London.

Mr. Peter Rees, Britain's Trade Minister, is in Leipzig where he has signed a five-year economic co-operation agreement with Dr. Gerhard Beil, East Germany's State Secretary for Foreign Trade. This is what used to be called a trade agreement before the EEC objected to them.

Medium-size and smaller West German companies which specialise in trade with East Germany say they are in a far worse position than large firms to deal with East German demands for compensation deals. Half the West German companies exporting to East Germany say they have to agree to buy back East German goods worth more than 50 per cent of the deal. This partly explains how East Germany was able to increase its exports to West Germany by 10 per cent in 1982.

In doing business with West German companies, East Germany now wants up to a year to pay while demanding cash in 30 days for its exports.

East Germany's success on the West German market last year was led by its exports of DM 1.7bn worth of oil products to West Berlin. This was part of a long-term agreement under which East Germany imports crude oil from West Germany

and exports twice the amount in oil products to West Berlin.

One of the mysteries of East-West German trade is why the East German authorities have failed to exploit to the utmost the interest-free "swing" credit which West Germany provides annually. It allows East Germany to overdraw its account by purchasing West German goods without an equivalent sale of East German products.

Throughout last year, East Germany used up an average DM 574m out of DM 850m at its disposal. In January this year East Germany used only DM 367m out of the DM 770m available. The East Germans chose instead to rely on West German supplier credits which involved interest charges.

Western bankers believe that by holding down use of the "swing" credit, East Germany hopes to convince them that its credit rating is of the highest calibre.

## Algerian pipeline deal for Nacap

NACAP, a Dutch offshore specialist, has won a F1 250m (£62.5m) order to construct a 220 km oil pipeline for the Algerian state energy corporation Sonatrach. The contract follows another, valued at F1 50m, awarded by Sonatrach last year, Walter Ellis reports from Amsterdam.

## Hong Kong study of Guangdong power plant

By Robert Cottrell in Hong Kong

THE HONG KONG Government plans a study of the financial implications for the territory of the nuclear power station proposed for neighbouring Guangdong province, China. It will also be participating in talks to be held on the project this week involving representatives of Britain's Department of Industry, a Chinese delegation led by First Vice-Minister of Water Conservancy and Electric Power in Peking, Mr. Li Peng, and China Light and Power Company, the Hong Kong utility which would build the power station in joint venture with the Guangdong Power Company.

The Guangdong power station would include two 900 MW pressurised water reactors, as envisaged by a feasibility study completed in 1980. Its potential cost has been estimated at up to \$6bn.

It is now the subject of a second phase of studies, developing and updating the original report. It would supply both Guangdong and Hong Kong, with receipts from the latter providing the foreign exchange to service financing costs.

The project has political implications for Hong Kong, since it would probably involve a financing package stretching beyond 1987, the year in which Britain's lease over most of the territory expires. China Light and Power is a private sector company, but it operates within a regulatory framework administered by the Hong Kong Government. Sir Edward Youde, said last year that the Government had agreed in principle to Hong Kong's taking power from China, "provided that the cost is no greater than it would be if we provided the necessary fossil-fuel-based generating plant in Hong Kong."

The Hong Kong Government now plans to select and appoint a merchant bank as its financial consultant to "identify and provide advice on the financial implications of any proposals that may be made in regard to the nuclear project, affecting the Government's responsibilities and interests."

## SHIPPING REPORT

## Second-hand prices start to lift

By Andrew Fisher, Shipping Correspondent

GREEK shipowners are being drawn back to the second-hand vessel market and prices have begun to lift again after reaching rock-bottom levels in the long-depressed shipping market.

At the same time, bulk cargo freight rates have continued their gradual and patchy move upwards, though the oil tanker market remains confused while producing countries wrangle over how far prices should be cut.

Around 85m deadweight tons of ships are laid-up and Lambert Brothers Shipbroking reckon that a further 50m dwt or more was also idle, underused, or inefficiently operated.

Greek owners are negotiating for new ships in Japan, where prices are roughly at 1976 levels

and unlikely to fall further. Bulk carriers are the second-hand market sector in which the Greeks—London, New York, and Piraeus-based—are showing most interest.

The catalyst for the second-hand activity, said Lambert, seemed to come from the sale by London and Onassis Freighters of four 27,000 dwt bulk carriers to Olympic Maritime for a total of \$20.5m.

ing February was stolen by G P Livanos, understood to have purchased six vessels of between 26,400 dwt and 38,000 dwt, built 1971-1981, for a total outlay of \$45m.

"The sale encouraged London Greeks to return to the market, but the limelight during Livanos, it added, is also thought to be negotiating for

five more bulk carriers. Compared with just over \$5m each for the LOF ships, Livanos is reported to have bought the Texon, a 27,000 dwt bulk carrier built in 1976, for some \$7m.

Galbraith Wrightson said prospective Greek purchases of new vessels in Japan included two 40,000 dwt bulk carriers for delivery in the second half of 1984, priced at the yen equivalent of \$14.5m each.

Greeks are also discussing the buying of 10 multi-purpose cargo vessels from Japan. A major Japanese shipping company, Sanko, is reported ready to order up to 50 bulk carriers of 32,000-40,000 dwt in Japan.

In its dry cargo report, Galbraith said shipowners were showing optimism.

## Iveco deal on diesels

By Our Rome Correspondent

IVECO, the heavy vehicle division of Fiat, has reached an agreement with Industrial Development and Procurement of Detroit for the distribution of diesel engines in the U.S. and Canada.

Under the deal, expected to be worth some £500m (£23m), the Italian company will supply IDP with some 20,000 fast diesel engines produced at its Sofim plant near Foggia. The agreement is expected to take effect in 1984 and in the first instance will last three years.

Iveco, Europe's second largest truck producer, set up a separate diesel engines division in April as part of the overall reorganisation of the Turin-based multinational.

## World Economic Indicators

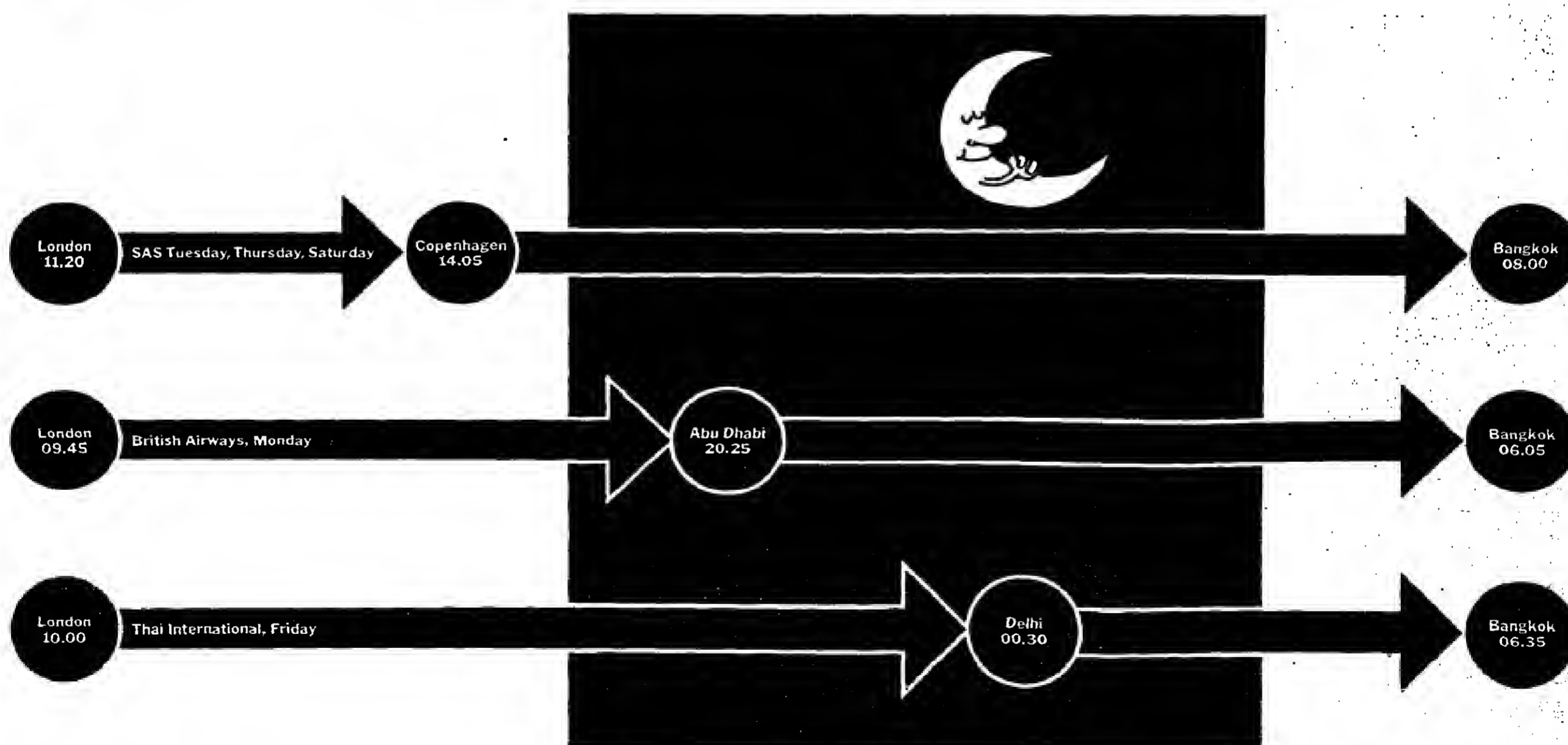
	INDUSTRIAL PRODUCTION INDICES (1975 = 100)				% change on previous year
	Jan. '83	Dec. '82	Nov. '82	Jan. '82	
U.S.*	134.2	135.0	134.6	140.7	-2.2
UK	103.0	103.6	104.3	102.3	+0.9
W. Germany	107.5	110.0	114.5	116.2	-1.4
France	119.0	119.3	115.1	121.3	-1.9
Italy	114.8	128.4	122.9	121.9	-5.8
Netherlands	118.0	110.0	108.0	121.0	-2.5
Japan	149.0	145.5	150.3	150.9	-1.3
Belgium	121.9	118.7	103.8	118.0	+2.3
* 1967 = 100					

Source (except U.S. and Japan): Eurostat

## China and USSR boost trade

China and the Soviet Union have agreed greatly to boost their modest bilateral trade in trade. Last year China and the Soviet Union signed an agreement in Moscow at the weekend, the New China News Agency reported. The agency gave no figures, but according to Chinese officials the agreement could result in a 100 per cent increase in trade. Last year China and the Soviet Union signed an agreement in Peking to boost trade by 44 per cent to the equivalent of \$316m.

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## UK NEWS

### FINANCIAL TIMES/MARPLAN POLL OF SENIOR BUSINESSMEN

## Competitive edge sharpened by decline in sterling value

BY MALCOLM RUTHERFORD

BRITISH industry seems to have become marginally more competitive since the decline in the value of sterling set in last autumn, according to an opinion poll of senior businessmen conducted for the Financial Times by Marplan.

About 14 per cent of companies surveyed said their margins had now become attractive enough to justify an expanded export effort. Another 24 per cent said their margins had been restored to a satisfactory level, and only 17 per cent said margins were still unsatisfactory or unrewarding.

A large number of the respondents (45 per cent) have still not reached any firm conclusions and a great deal of the poll's findings reflect uncertainty about the future.

There is no doubt, however, about what most of the business community would like to see out of the budget this week, or in the next few months.

As many as 48 per cent say that a further fall in interest rates would be the development that would most help them, even if it were accompanied by some recovery in the exchange rate.

Another 29 per cent give priority to a cut in business or employment taxes. Only 9 per cent opt for a further fall in the value of sterling.

Marplan conducted 504 telephone interviews with senior managers in manufacturing, retail and distribution companies defined by Dunn and Bradstreet, the leading credit information agency, as having a turnover in excess of £5m. The survey was conducted between March 4-10 this year.

In answer to a related question about business assumptions about the future level of sterling, 28 per cent said they expected a recovery, 26 per cent said they expected it to continue more or less unchanged, and only 12 per cent expected a further decline.

The uncertainty came out again in the 30 per cent who said that they could not yet make any assumptions.

Asked about the effects of sterling depreciation so far, 31 per cent of respondents said that they now found it easier to meet foreign competition on list prices, though 17 per cent said that they did not.

On negotiated/tender prices, the response was 20 per cent easier and 15 per cent not easier. Again there was a large number of "don't knows", possibly because it takes some time for depreciation to have an effect.

Foreign competition continues strong. While 40 per cent of respondents said that they found their overseas suppliers less competitive than before, 38 per cent said the opposite.

The question was then asked: "Compared to last autumn, do you find your overseas suppliers as keen to do business as before?" The response was 74 per cent "yes" and only 7 per cent "no".

Just over half of those polled said that UK suppliers had become more competitive on price, though 30 per cent said not. Nearly 60 per cent said UK suppliers had become more eager to secure their business, but another 28 per cent denied it.

It is perhaps too early to see the effect of depreciation of the share of imports in UK company purchases. Almost 20 per cent said that their import share had fallen, but 14 per cent said that it had risen. The rest replied that it had remained the same.

The overall findings, however, reflect some British business recovery.

### EXCHANGE RATE SURVEY

	Size of company (by turnover)				Area		Type of industry		
	Total Sample	Up to £10m	£11-£50m	£50m+	North	South	Manufacturing	Distribution	Other
	504	107	230	101	198	306	391	158	
COMPARED WITH LAST AUTUMN, HOW ARE YOUR MARGINS NOW?									
Attractive enough to justify an expanded export effort	14	8	14	15	14	14	15	7	
Restored to a satisfactory level but no more	26	23	24	24	22	24	25	19	
Still unsatisfactory/unrewarding	17	18	17	18	18	17	19	8	
Don't know/no information	45	50	44	44	45	45	40	65	
HOW HAS THE SHARE OF PROFITS IN YOUR PURCHASES CHANGED?									
Fallen	19	19	16	27	18	19	18	24	
Risen	14	16	17	7	11	17	13	19	
Remained the same	56	53	60	58	59	55	69	45	
Don't know/no information	10	12	7	8	12	8	10	12	
COMPARED WITH THE SITUATION TODAY, WHAT DEVELOPMENT WOULD MOST HELP YOU?									
Further fall in the exchange rate	9	7	7	8	8	9	9	8	
Fall in interest rates, even if this reflected some recovery in the exchange rate	48	50	58	45	48	51	49	49	
Cut in business/employment taxes	29	34	26	26	34	26	29	26	
Some other development	15	10	16	24	14	16	14	26	
No information	5	4	4	4	3	6	5	4	

## Wage pact boost for Labour

BY JOHN LLOYD, LABOUR EDITOR

MOVES within the Transport and General Workers' Union (TGWU) are likely to improve greatly Labour's prospects of going into a general election campaign with the claim that it has an incomes pact with the unions.

Such a claim is regarded by many senior party figures, including Mr Peter Shore, the Shadow Chancellor of the exchequer and Mr Denis Healey, the shadow Foreign Secretary, as indispensable to Labour's hopes.

The TGWU's general executive council last week debated, but did not decide on, a motion from its north-east region which modified the union's official position of in-

transigent hostility to any kind of incomes pact with any Government.

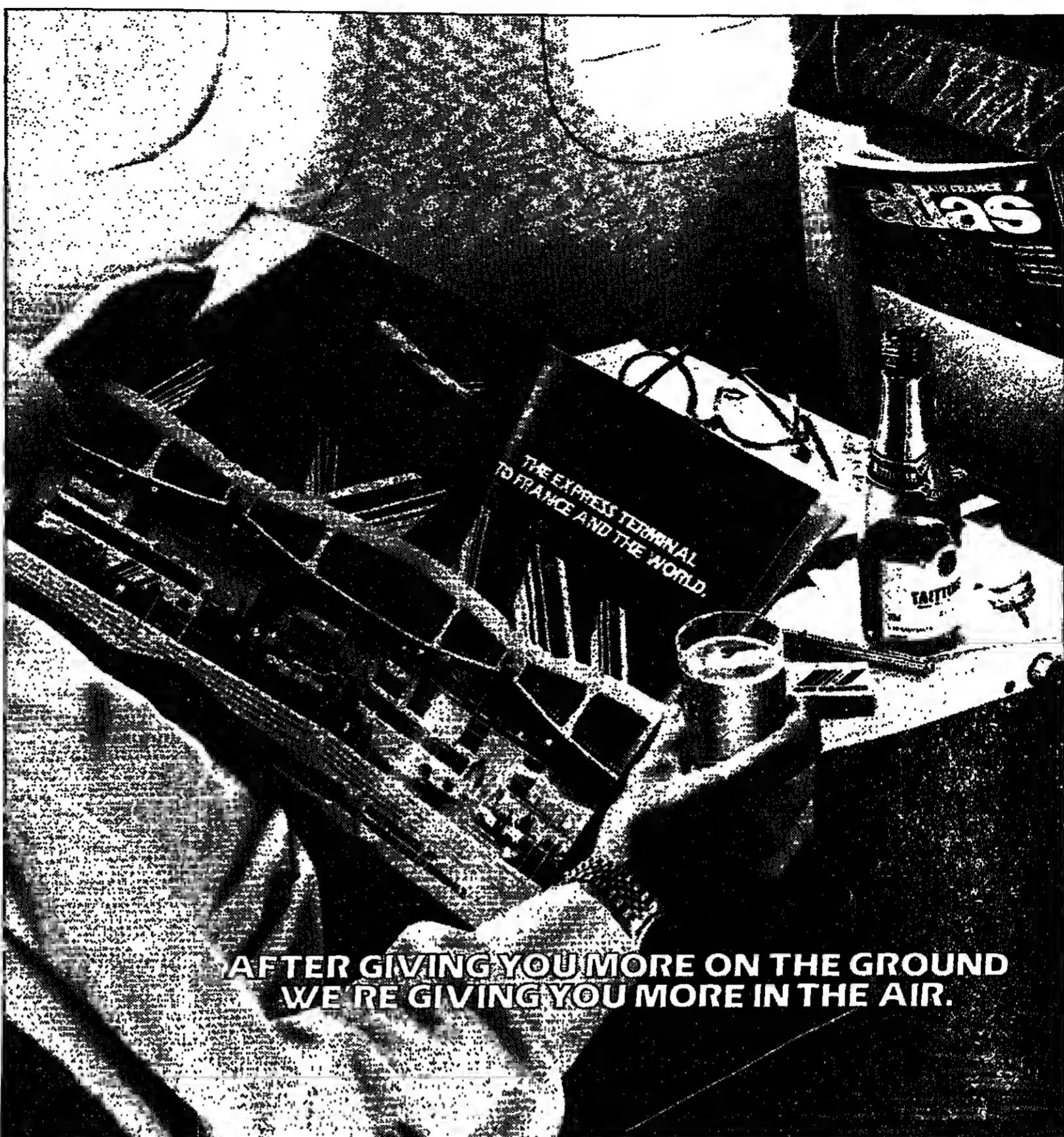
Adoption of the motion would allow the union to hold talks with a Labour Government to pay, though it would be prohibited from agreeing to fixed norms.

The north-east region's motion will be debated again, together with other motions on incomes, at the union's biennial delegate conference in July. Even if it is not adopted a growing section of the union's leadership believes the union should at least adopt a separate statement pledging the union to take part in the national economic assessment which Labour has said it will make with the unions, and

which will discuss incomes in the context of the allocation of all resources.

Mr Moss Evans, the TGWU general secretary, has said he favors a "progressive" incomes policy which, though vague, is taken by Labour leaders and others as indication of a willingness to take part in pay talks. Mr Evans has stressed in discussions with his officials the need for the union not to act as a drag on Labour's election prospects.

The joint statement between the Trades Union Congress and the Labour Party which will seal their pre-election pact, receives its finishing touches this week.



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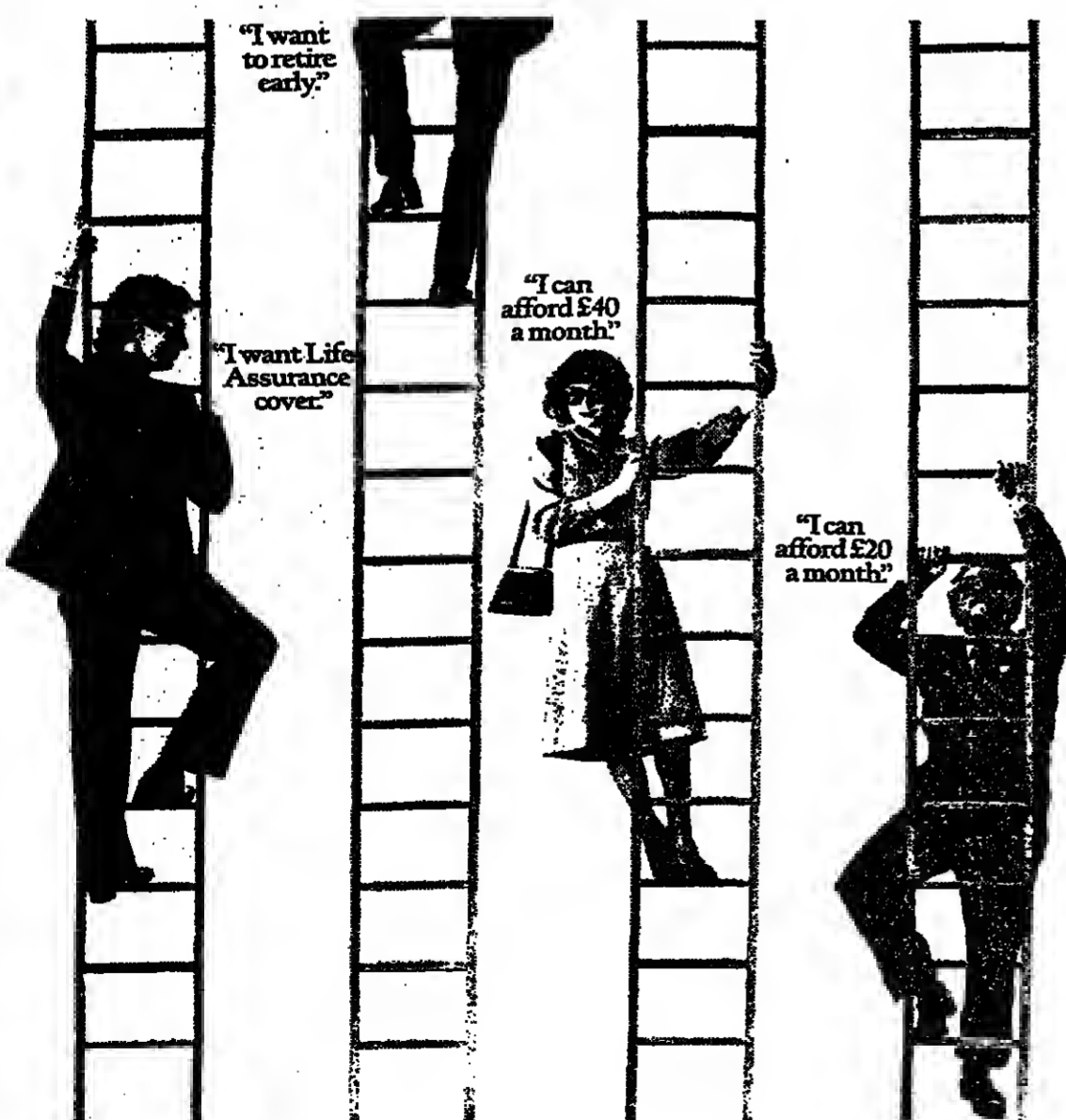
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## BUSINESSMAN'S DIARY

### UK TRADE FAIRS AND EXHIBITIONS

Date	Title	Venue
Current	Chelsea Antiques Fair (St Albans (0727) 56089)	Chelsea Old Town Hall
Current	Daily Mail Ideal Home Exhibition (01-222 9341)	Earls Court
March 21-25	International Engineering Inspection and Quality Control Exhibition—INSPEX (01-643 8040)	NEC, Birmingham
March 22-25	London Fashion Fair (01-831 7855)	Olympia
March 22-24	International Tyre and Equipment Exhibition—BRITTYREX (01-467 7728)	Cunard Exhibition Centre
March 28-30	British Wool Cloth Show (Bradford (0274) 724235)	Dorchester Hotel, W1
April 6-9	Fashion Fabrex (01-831 7855)	Olympia
April 9-11	London Black Fashion and Beauty Fair (01-272 5183)	West Centre Hotel, W6
April 12-14	Coal Preparation Technology Associated with Cost Efficiency—Symposium and Exhibition (061 832 6541)	National Agricultural Centre, Kenilworth
April 18-22	International Fire, Security and Safety Exhibition and Conference (01-387 5050)	Olympia
April 19-21	2nd Exhibition of Numerical Engineering Equipment and Services (01-679 9411)	Wembley Conference Centre
April 19-21	Fibre Optics Exhibition and Conference (Essex (0799) 22612)	The Brewery, EC1
April 26-28	Site Equipment Demonstration—SED 83 (01-904 8504)	Hatfield

### OVERSEAS TRADE FAIRS AND EXHIBITIONS

Current	53rd Geneva International Motor Show (022/86 11 11) (until March 20)	Geneva
Current	International Trade Exhibition for Hotels, Catering, Bakeries and Confectioners—INTERNORGA (until March 16)	Hamburg
Current	International Spring Fair (01-439 3111) (until March 18)	Leipzig
March 14-17	Computer Graphics Exhibition (01-749 3061)	Berlin
March 22-25	International Technology Exchange and new products Fair—TECHEX '83 (01-584 5749)	Florida
March 23-27	Exhibition of Building Components and International Finishing and Sports Facilities (051 555 662)	Bologna
March 24-27	International Trade Fair for Garage Equipment—AUTOVAR (01-228 2880)	Amsterdam
April 16-20	87th Swiss Industries Fair (061 26 20 20)	Basle
April 24-28	Construction Indonesia '84 (01-486 1951)	Jakarta

### BUSINESS AND MANAGEMENT CONFERENCES

March 14-16	Oyas IBC: Improve your management of hazard and operability studies (01-499 6321)	Park Lane Hotel, W1
March 15	Macfarlane: U.S. sales and business operations. Current legal practice aspects (01-637 7438)	Royal Garden Hotel, W8
March 15	Industrial Society: making provision for ethnic minorities at work (01-839 4300)	Carlton House Terrace, SW1
March 18	Institute of Credit Management: Annual Conference (Ascot (0990) 23711)	Hilton, W1
March 21, 22	Irish Chemical Industry—2nd Economic Conference (Dublin (01) 608377)	Dublin
March 22	CBI: Pay bargaining in the next ten years (01-379 7400)	Centre Point, WC1
March 22, 23	FT Conference: The outlook for world grains (01-621 1355)	Inter Continental Hotel, W1
March 22, 23	BSI/BSI conference on flat roofs: Warm and Dry (0442 6841)	Park Lane Hotel, W1
March 23	Chatham House: World trade issues between America and Europe (01-930 2233)	Chatham House, SW1
March 23	IFS: the 1983 Budget—its contents and implications (01-828 7545)	Regent Palace Hotel, W1
March 23	Macfarlane: Offshore tax planning in the UK. What would reintroduction of exchange controls mean? (01-637 7438)	Waldorf Hotel, WC2
March 23	External Wall Insulation Association: Insulation seminar (01-637 7451)	UMIST, Manchester
March 23, 24	Clothing and Footwear Institute: focus on micro-computers (01-203 1081)	CFI conference centre, London
March 23, 24	IPC: Quality—the key to manufacturing profitability—Insper '83 (01-643 8040)	NEC, Birmingham
March 24	Macfarlane: International financial communications in a world recession (01-839 4300)	Press Centre, EC4
March 24, 25	Symposium S.A.R.L.: Doing business in Singapore (47.01.43)	Luxembourg
March 25	Riba: The settlement of disputes (01-637 8991)	66 Portland Place
March 29, 30	IWT: Office Automation—the management seminar (01-242 8697)	Hyde Park Hotel, SW1

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.

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## BUILDING AND CIVIL ENGINEERING

## Gatwick's North Terminal ready for take-off

A CONTRACT-STARVED UK construction industry is lining up to compete for a share of £200m worth of building and civil engineering work involved in the development of the second passenger terminal at Gatwick Airport.

It was in early 1978 that a Government White Paper on airports policy invited the British Airports Authority to bring forward proposals for a second Gatwick terminal and, after a six-month planning inquiry, the go-ahead was finally given last November.

The fight to be involved in the project — rivalled only by the current £200m construction programme to provide Heathrow's fourth terminal — will be fierce. But although the BAA is making strenuous efforts to give British companies a chance of walking away with most of the work, it seems inevitable that some will end up in the hands of foreign contractors.

Site work on the project, one of the largest and most controversial construction schemes to be undertaken in the UK for many years, is planned to start in the next few weeks. The first task will be to divert the river which now cuts awkwardly across the middle of the proposed terminal site. By the summer of 1987, the last part of the project should have been completed. The last part of the project should have been completed.

Located to the north-west of the existing terminal facilities, the new building will be linked to the main airport complex and to British Rail by an elevated, rapid transit rail system.

**THE CONSULTANTS**  
YMA—architects; L. G. Mousheer—structural and civil engineering; Donald Smith Seymour & Royley—mechanical engineers; McLellan & Partners—electrical engineers; Brierley Hill—interior design; Greenfield Smith—landscape; Alanair—decking; Morrison—mainframe; Adams—landscape.

The scale of the project is immense, and it will provide major contract opportunities for a wide cross-section of construction and related supplier industries.

Construction of the terminal building and aircraft piers will use nearly 9,000 tonnes of

CONSTRUCTION COSTS (ESTIMATED)		
Main Elements	Phase One	Later Phases
Main terminal building complex	79	20
Aprons and taxiways	10	9
Roads and footpaths	12	1
Car parking	7	6
Tracked transit complex	23	—
External works and infrastructure	23	4
	154	42

structural steel and there will be over 55,000 cu metres of concrete. To make way for the three-deck, 65,000 sq metre blue and silver building and its related facilities, contractors will have to move about 1.25m cu metres of earth.

There will be 71 km of catwalks, 20,000 sq metres of roof of paint, 17,000 sq metres of external cladding, 41,000 sq metres of suspended ceilings and 85,000 sq metres of wall and floor finishes.

Apart from the mass of construction materials required to erect the buildings, piers and road and rail links, the new facilities will also offer major contract opportunities for the entire range of building, mechanical and electrical services.

The terminal will require over 40 lifts and escalators and will contain TV surveillance equipment, telephone exchange, baggage handling equipment, fire fighting facilities.

ties. Flight information systems and—last but not least—miles of carpeting, piles of catering equipment and plenty of potted plants.

Phase One of the scheme will account for just over £150m of the total planned expenditure and will be split roughly into £80m for building work and £70m for civil engineering operations. All necessary planning permissions will be sought over the next 18 months.

The first contract, to divert the River Mole, will be worth about £1m and the 50-week job should be placed in time for work to start in early April. The largest single contract, for around £20m, will be for the main terminal building, work on which is scheduled to begin during the summer.

Most work will be put out on a competitive tender basis, although the BAA accepts this will not necessarily be possible where the nature of the contract involves a highly specialised, public accountancy. The crucial keywords throughout the project and each and every item of expenditure can be subjected to critical examination by the Department of Trade and the Treasury.

Only too well aware of the row which broke out when the cladding contract for Heathrow's terminal four went ahead, the BAA is emphasising not only its determination to contain costs but its desire to see UK companies win the biggest bite of the cherry.

In the BAA's own words: "The scale and scope of the work will provide a major challenge and, hopefully, an incentive to British industry. The Authority's declared policy is to support British industry wherever possible, concomitant with cost, quality and performance."

complex has been designed in a way to ensure that it falls within the capabilities of UK contractors and suppliers.

"There is naturally a great deal of pressure on us to go British wherever possible but there will inevitably be some elements where we will have to go elsewhere."

While we want to maximise the British content, we have costs uppermost in our minds and we have to remember, for example, that glass from Belgium can be up to 40 per cent cheaper than it is in the UK."

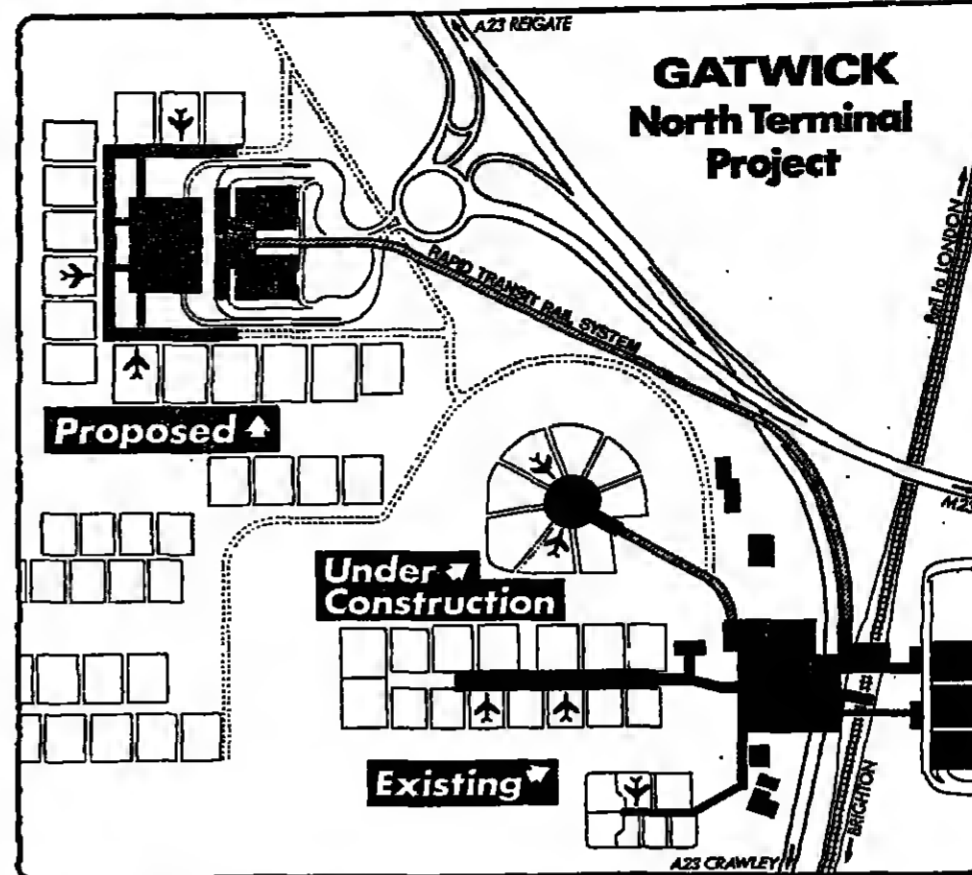
Williams believes that most of the overseas interest will centre on elements of the terminal building and its services and says that potential foreign suppliers have already been coming in to see him.

"Part of our job has been to go out and market the project and stimulate interest in it among possible UK suppliers. In the case of cladding panels, we went to 21 companies and analysed their size, capacity and capabilities. Their response was not always very encouraging."

"The problem was that some simply wrote themselves out, even when the potential job was clearly within their technical capability. The work was not beyond them but they were just frightened off by the scale of the project," he adds.

There is much less reluctance to become involved among the larger builders and civil engineers, who are making their interest known and who expect to pick up work on the back of their airport construction experience. But not every small operator, it seems, has been scared off, and at least one local muck-shifting company has made it clear it wouldn't mind helping to move the mountain of earth that will have to be cleared during the course of the development.

Williams, who heads a team of project engineers and architects which calls on outside con-



sultants to assist with numerous elements of the project, expects anything up to 100 contractors to be involved in the terminal's development when activity reaches its peak.

While the BAA will have its work cut out supervising such an army it will need to keep one eye on the well-being of the local community, not all of which is delighted at the prospect of a few million extra passengers and a few thousand

more aircraft homing in on this particular part of West Sussex. The BAA is having to meet numerous, strict conditions — often going further than the public inquiry inspector recommended — to protect residents from the nuisance created by construction, and from the more permanent impact of an extended air terminal. Earth barriers will be in abundance, and as much as £1m is to be spent on landscaping to help

maintain Gatwick's unique character as an airport which blends well with its rural surroundings.

The intention is to provide an airport complex which will cope with the air traffic demands placed upon it well into the twenty-first century, along the way it will provide the construction sector with some badly needed work.

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## Plant for tunnellers and quarrymen

A TUNNEL boring machine called the Bore Head has been developed by American Angus Inc. of Wooster, Ohio.

Costing around £30,000, the machine is claimed to provide an economic alternative for the mechanisation of sewer installation and similar services. Bore diameter ranges from 900 mm to 2,135 mm.

It was developed, and is still extensively used in the U.S., as an add-on to a conventional auger boring rig, with the auger itself being used for spoil removal.

Although a problem with auger boring has been accuracy, the independently steered auger, combined with the steering and grade controls, is stated to eliminate this problem.

Mr Albert Freeman, a director of Tunnelquip (UK) supplier of the Bore Head, says that the machine would provide an ideal excavation method for pipe jacking.

He maintains that this development will be a competitive alternative to the expensive Japanese small diameter remote control machines.

"The flexibility of the machine is such that we can have a number of skins of different diameters and simply fit in the power unit and other items to suit the job, improving plant utilisation," says Mr Freeman.

## CONTRACTS

## £19m shelters in Scotland

BALFOUR BEATTY has been awarded a £19.75m contract for the first stage of the air defence programme in Scotland by the Property Services Agency. Work involves construction of 22 hardened aircraft shelters in two complexes together with associated personnel buildings and annexes. Each shelter has an arched steel liner and concrete overlay. The main door is steel framed with concrete infill and is electrically operated. At the rear of each shelter there will be a two-leaf steel door and jet efflux tunnel in reinforced concrete. Additional works comprise two squadron headquarters buildings, part traditional building, part hardened, with a traditionally built annex, housing offices and toilets; two hardened personnel shelters; six general service shelters; liquid oxygen store; two electric substations; five toilet blocks together with all drainage and water supply services; underground diesel oil fuel tanks. Work has started and will take two years to complete. Balfour Beatty is a member of the BICC Group.

Regional divisions of WIMPEY CONSTRUCTION UK have won a £3.5m batch of contracts. The Liverpool office has won two refurbishment contracts totalling £1.4m. The Liverpool Housing Association has placed a £1m contract to refurbish 57 houses and four flats in Holden Road. Pitched roofs will be erected on

existing flat roofs, new doors and windows will be fitted and central heating installed and the building internally refurbished and redecorated. Under a £440,000 contract, placed by Liverpool City Council, Wimpey is to repair and alter 27 medium rise flats in Frank Street. An infrastructure for the East Moors 2 Industrial Estate in Cardiff is being undertaken by the Cardiff office under a £1.25m contract from the Welsh Development Agency. The Aberdeen division has been awarded a contract, worth approximately £570,000, for the rehabilitation of 67 houses in Telford Gardens and Telford Street for Inverness District Council. The University of Newcastle-on-Tyne has awarded the Newcastle office a £413,000 contract to demolish the Claremont Road Hall, Newcastle and replace it with a steel framed, concrete blockwork building. The contract covers sanitary installations, electrical and mechanical services, drainage and external works.

**MILLARD CONTRACTORS**, Tipton, has won contracts valued at £2.5m. The largest is for 91 old people's flats, two wardens flats, a warden's house and two community areas at John Street, Brierley Hill. The £1.7m contract has been awarded by the Royal British Legion Housing Association. The City of Birmingham has awarded a £236,000 contract to erect 12 homes on

two sites. Two houses for disabled persons are to be built at Alston Street, Ladywood, and further 10 flats and houses, at Crompton Road, Nechells. The housing modernisation department has secured a £288,000 contract from Bromsgrove District Council for work on 26 pre-war houses. The small works department has won a number of contracts including one from British Telecom for alterations to Wolverhampton Telephone Exchange valued at £92,000.

Cheltenham-based building contractors **FORD & WESTON**

## £15m work for Monk

Building and civil engineering work totalling £15.4m has been awarded to A. MONK AND CO. The largest, for the Property Services Agency in Humberside, is a contract worth £1m for the construction of the Full Sutton Prison. The work involves the erection of four cell blocks, entry building with surveillance and emergency controls, medical block, community centre with sports hall, education block and chapel. For Nairn Council, Monk has a £307,000 contract for the construction of a new mix building. The contract involves the erection of a single-storey production and storage building. For

(SOUTH WEST) has been awarded a £1.9m contract for the construction of 109 homes. The project, at Shortlands Green Road, Malvern for Malvern Hills District Council includes 38 old people's flats, 32 category 2 flats and 39 houses including a warden's house.

A £1.5m contract for the construction of Thrum Hall Reservoir, Halifax, West Yorkshire, has been won by the Doncaster office of JOHN MOWLEM AND COMPANY. The client is the south western division of the Yorkshire Water Authority. The contract also includes the installation of approximately 1,000m of ductile iron pipework. The Doncaster office has also won a £212,000 contract for a traffic flow scheme at Canning Circus, Nottingham.

Texaco at Angle Bay, Pembroke, the company has a contract worth £330,000 which involves back-filling derelict tank bunds and construction of three tank bases and associated roads, drainage and retaining walls. At Stamford, Monk has a contract worth £963,000 for East Midlands Gas for a pipeline from Newcastle to Westfield. The work comprises laying of a 250 mm polyethylene clad steel pipeline and outlet main, about 12,700 metres long. Fixed at Bampton, a contract worth £190,000 for Devon County Council, for construction of 0.2 km of carriageway on the A396 at Exeter Inn and the upgrading and widening of 0.5 km existing carriageway.

## Norwegians attack UK concrete market

THE NORWEGIAN metals producer Elkem is aiming to secure a multi-million pound slice of Britain's concrete market with a refined, waste material produced during its silicon metal-making operations.

The company's eventual target is to gain around 60 per cent of a market which it values at about £15m a year.

The material, micro-silica, is produced either as a fine powder or as a half-solid silica slurry. When added to a fresh concrete mix it fills in the natural voids between the cement particles, increasing the strength of the concrete and radically altering its pore structure to increase impermeability.

Elkem claim that micro silica can increase the strength of normal concrete by 50 per cent in a standard mix design and that increases in strength of up to 90-100N/sq cm can be gained if the mix is specially designed for micro silica.

The material has been widely used in Scandinavian countries for the past five years, particularly in applications where the concrete is subjected to intense wetting. Last year micro silica was used in the construction of highly stressed reinforced concrete culverts installed on the sea bed in the North Sea oil fields. The material is also used for roof tiles, road surfaces and deep foundations in aggressive soil conditions.



Lemond Engineering, a member of the Shand Group, has introduced a boom-mounted rotating cutter head for attachment to hydraulic excavators. Based on the principle of the Shand Rotel boom, it has been developed to enable rock to be cut and trimmed relatively quietly in trenches, underground excavations, tunnels and quarries. The telescopic boom is adjusted by two double acting 2.4 metre stroke hydraulic cylinders, giving horizontal coverage to around seven metres from the centre line of slew and to four metres below ground level.

TOM SEALY

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## THE MANAGEMENT PAGE

# Picking up the pieces after Mexico's devaluation

William Chislett examines Alfa, the debt-ridden industrial group

ONE OF the biggest and most complex financial reconstructions in the history of corporate finance is under way for Grupo Industrial Alfa, Mexico's largest and troubled private enterprise, which owes \$2.5bn to foreign and Mexican banks and cannot pay its debt.

At stake are large loans totalling \$1.8bn made by some of the world's biggest banks — which have already been severely jolted by Mexico's acute liquidity crisis and the rescheduling of the public-sector debt of \$61bn.

Alfa, once the flagship of the Mexican private sector, whose name was synonymous with expansion and fat profits, suspended capital repayments of its borrowing principal in April 1982, and last August deferred about 70 per cent of interest payment. Its losses in the first six months of 1982 (latest figure) were still 15.8bn pesos.

Now it has been decided that if the group's diverse activities — steel, petrochemicals, tourism, paper and packaging, capital goods and processed foods — are to be kept alive, it is no longer feasible to keep Alfa intact.

A separate liquidation company — implicitly called Zeta — has therefore been set up to embrace a number of Alfa's activities. As Felipe Cortes, the vice-president for planning, anxiously explains in order to dispel the idea that Zeta is little more than a rubbish bin: "It is not a matter of dividing

up the good and bad companies. There are good companies in Alfa with strong market positions and they are in Zeta because they require a large amount of investment which we do not have."

Lehman Brothers Ruben Loeb, the U.S.-based merchant bank, which is leading the restructuring efforts on behalf of Alfa, has presented a preliminary plan to establish the Zeta liquidating trust involving the disposal of all of Alfa's companies apart from its Hysla steel mill and four petrochemical concerns which would be grouped together in a "new" Alfa streamlined core group.

Alfa's predicament arises largely because it over-extended itself on the back of massive foreign borrowing. As the Mexican peso declined steadily against the U.S. dollar and international interest rates rose, so the cost of servicing its debt eventually became an impossible burden. The peso declined by 82 per cent in 1982.

Interest payments alone last year of 23bn pesos would have eaten up over one third of Alfa's 84bn pesos of total sales. Faced with the risk of proceedings in the Mexican courts, which would be messy for all parties concerned, Alfa is asking foreign creditors and the Mexican Government, which has a 12bn peso loan to the group, to make big concessions.

But the banks are not yet united in their approach to the problem, particularly the

Japanese banks which want greater participation by the Government and the shareholders in the rescue plan. Alfa is demanding full acceptance of the plan before it can be implemented. The Government, for its part, is not prepared to give up all its collateral on its loans to Alfa which the plan requests as a major concession.

The Government has the right under its 12bn peso loan made by Banobras, the public works bank, to take over common stock in Hysla, Alfa's prime steel mill, in 1985, if Alfa has not paid off its debts by then — as would seem to be the case. The Government could end up with about 25 per cent of Hysla's stock.

The outgoing Lopez Portillo Government was fiercely criticised by the Left for making the Banobras loan. But a senior government official says that the Government also wanted Alfa's shareholders to play a more "equitable" role and to accept a greater degree of losses than currently envisaged.

Meanwhile, some banks have already written off substantial sums lent to the Alfa holding company, Citibank, with an exposure of \$26.4m, has started a law suit in Mexico against Alfa regarding an unexecuted promise given by the company to grant a mortgage on one of its buildings as security for a loan.

Citibank, however, says that this is not a foreclosure proceeding and nor is its move intended

to impede the restructuring process.

The idea behind the separation of constituent companies is "to develop a new core group of companies which are the larger income earners, and which can support a certain level of holding company debts," says Eric Jurgensen, Alfa's vice-president for corporate finance. Jurgensen once worked for Continental Illinois, Alfa's largest creditor.

Among Alfa's stronger companies, for example, is Fud, a processed food concern which has 25 per cent of its market — more than four times that of its nearest rival. Fud's debt is \$60m and it was one of a small minority of Alfa companies which was current on interest payments in 1982.

Alfa has stopped inter-company transfers which were being made to prop up the more shaky companies and which were beginning to bleed the strong ones like Hysla.

By putting the subsidiaries it wants to sell into a liquidating trust, Alfa feels that it can attract maximum buyer attention while establishing a new viable core group. But the chances of selling off companies are slim in Mexico's present uncertain climate.

Ernesto Canales, the vice-president for legal matters, says that Alfa has been told by the Government that foreign investors would be allowed 100 per cent control of the companies to be sold. This could be an incentive.

Mexico's foreign investment law limits foreign participation in joint ventures to a maximum of 49 per cent except in very rare and special circumstances left to the Government to determine. The proviso, says Canales, would still be a commitment from the foreign investor to "Mexicanise" the company at some date in the future.

The first selling memorandum, for Fud, went out in February. Jurgensen and Cortes say Alfa is prepared to consider all kinds of offers, but they refuse to be drawn on the terms of the sale.

Marriott, the U.S. chain of hotels, was interested in buying Alfa's Las Hadas Hotel on the Pacific coast last year, but it took fright after the August



(L to R) Eric Jurgensen, vice president for finance, Felipe Cortes, vice president for planning and Ernesto Canales, vice president for legal matters: coping in the wake of the peso's 82 per cent fall

## GRUPO INDUSTRIAL ALFA

	1977	1978	1979	1980	1981	1982
bn pesos bn pesos bn pesos bn pesos bn pesos bn pesos						
Total assets	24.3	34	52.9	91	120.7	224.7
Total liabilities	14	17.8	25.3	52	75.8	131.2
Total revenue	13.6	19	30.2	46.7	62.6	84.8
Net profit (loss)	1	1.7	2.7	3.7	(5.8)	(15.8)
Number of employees	19,505	22,217	32,865	49,017	41,277	35,396*

\* To January 31 1983. † First half 1982.

## ALFA'S LEADING CREDITORS

(Total commercial bank exposure \$1.66bn)	
Continental Illinois	\$28.4m
Bank of America	\$74.8m
Chase Manhattan	\$71.2m
Lloyds Bank	\$45.7m
Manufacturers Hanover	\$40.4m
Credit Suisse	\$31.6m
First City National Bank	\$28.4m
Houston	\$25.7m
Republic	\$24.7m
Royal Bank of Canada	\$41.4m

devaluation of the peso.

The worst that could happen is that "everything is sold for a penny," says Cortes. On the other hand "if all the companies are not sold at the end of five years, this will not be very bad because we think these companies will improve their performance."

The plan's success depends to a large extent on retaining full control of Hysla and making sure that the steel mill, the most productive in Mexico, remains a viable entity. Hysla accounts for 24 per cent of Mexico's basic steel production and about 40 per cent of Alfa's revenue.

The Government has the right under its 12bn peso loan made by Banobras, the public works bank, in 1981, to convert the loan into common stock in Hysla in 1985 if Alfa cannot repay its debt.

Alfa wants to put the Government on the same footing as its commercial creditors whose loans are unsecured. The Banobras loan created a political furor among the Left and some sectors of the ruling Institutional Revolutionary Party

which have long criticised Alfa for its monopoly in various sectors of the economy.

It could thus be difficult for the Government to make any concessions. At the moment the Government has 5bn pesos of preferred stock in some of Alfa's companies and 7bn in loans in the 12bn package. The Alfa plan calls for the preferred stock and for all loans made by the nationalised Mexican banks (which were private up until last December) to companies, to be converted into debt in the "new" Alfa and the maturities to be extended.

Alfa also wants its dollar denominated loans from Mexican banks to be converted into peso obligations in order to reduce damage of any further devaluations.

Hysla is, however, running into several problems. Under an interim plan last year it is supposed to have been paying 50 per cent of its interest payments since last August. But it is only current until the end of August.

Alfa's projections for paying interest vary according to the

size of the price increases it expects to obtain from the Government for Hysla. As from mid-February, Hysla was selling its steel at the same price as last August, despite 60 per cent inflation since then.

Jurgensen says Alfa had applied for an 80 per cent steel price rise so it could "live with" a 60 per cent increase.

Meanwhile Hysla has found a market in the Middle East, for the first time, to take 20 per cent of its 1.7m annual tonne production—all of which it is now unable to sell in Mexico because of the depressed home market.

The Government's refusal to go along with all the concessions which Alfa is asking it to make raises a serious question mark over the viability of the Lehman plan. The Government is just beginning to turn its attention to the hard pressed private sector, some of whose companies are "mini Alfas," and it does not want to be seen to be setting a precedent for Alfa. "It would seem that we are back to square one," said one European banker.

## Management abstracts

**Micros as sales aids in small businesses.** Absatzwirtschaft (Fed Rep of Germany), Oct '82 (in German, English version available).

This is the story of a garage proprietor (five employees) who bought a micro to look after the volume of data even such a small set-up needs these days, wrote all his own programs (which he now sells) and found that, admin apart, the marketing spin-off makes it all worthwhile.

**Let's simplify accounting for small business.** M. B. Mauger in CA Magazine (Canada), Sept '82.

Points to growing North American concern at the burden which conformity with generally accepted accounting principles places on small companies; argues the need for a two-tier solution, differentiating between large and small companies; and discusses how a small company — with a limited accountability requirement — could be defined.

**Turnkey computing for small users.** A. Simpson in Data Business (UK), Oct '82.

Explains the "turnkey" solution to the computer needs of small and first-time users; describes "tailor-made" services for particular trades/users and training; points out financial and cost advantages; and forecasts growth in the approach.

**Checks for smooth export transactions.** International Trade Forum (Switzerland), April/June '83.

Presents a series of checklists aimed at avoiding errors in documents needed when selling exports by letter of credit.

**The Innovation Centre: resource for small industry.** C. Garrity in Management (Ireland), Sept '82.

Recounts Irish experience in establishing an innovation centre. Describes how the centre operates, the workshops and factory space that are available for rental, and the facility whereby technology licensing and joint ventures can be set up with overseas companies. Gives examples of companies that have availed themselves of the opportunities for new product development.

**These abstracts are condensed from the abstracting journals published by Anbar Management Publications. Licensed copies of the original articles may be obtained at \$3 each (including VAT and p+p; cash with order) from Anbar, PO Box 23, Wembley, HA9 8DJ.**

## The rescue plan for Alfa and Zeta

THE "new" Alfa group, with about 55 per cent of the present total assets of 234.7bn pesos, would assume half the holding company's external debt of \$1bn (including debts to Alfa's companies guaranteed by the holding company) and also the respective debts of Hysla and petrochemical concerns — Polioles (a joint venture with BASF of West Germany); Petroel (a joint venture with Hercules of the U.S.); Nylon de Mexico and Figusa.

The timescale for this debt would be 10 years, at the end of which the "new" Alfa would expect to be fully servicing its debts.

The cash flow from this group of strong companies would first be applied to pay the respective debt of these companies and then later, through dividends, pay \$500m of the holding company debt. Zeta would be effectively capitalised with the remaining \$500m holding company debt, represented by income bonds which would give creditors the dominant financial interest in Zeta and the

power to name four of the five board members. Interest and principal on the income bonds would be paid if, and only if, earned by Zeta, and the companies are sold off.

The timescale for the Zeta operation is five years, at the end of which debts outstanding to banks would become subordinated debts to the "new" Alfa.

Alfa has an extremely complicated financial structure. The plan is viewed as the best way of reconciling the conflicting interests of banks with loans to strong and weak operations.

# AUGUST 6TH, 1982 AN IMPORTANT EVENT IN THE HISTORY OF ITALIAN BANKING.

This is the date Nuovo Banco Ambrosiano was established by seven of Italy's prime banks\*, who subscribed to its share capital of 600 billion Lire (approx. U.S.\$ 428 million) fully paid-up. The combined balance sheets of the seven banks total more than 100,000 billion Lire (approx. U.S.\$ 71,000 million) — a significant figure which testifies to the importance of this event in the history of Italian banking. Nuovo Banco Ambrosiano controls two important banks which operate in the North of Italy: Banca Cattolica del Veneto, Vicenza and Credito Varesino, Varese. With these banks, total deposits of the Nuovo Banco Ambrosiano Group come to more than 7,000 billion Lire (approx. U.S.\$ 5,000 million). Full banking service is assured with its 360 branches. Although these are mainly located in northern and central Italy, their operational capacity covers the entire country. Abroad, customer's needs are met thanks to a global network of over 1,600 correspondent banks in 147 countries.

\* Banca Agricola Commerciale di Reggio Emilia, Banca Nazionale del Lavoro, Banca Popolare di Milano, Banca S. Paolo - Brescia, Credito Romagnolo, IMI - Istituto Mobiliare Italiano, Istituto Bancario San Paolo di Torino.

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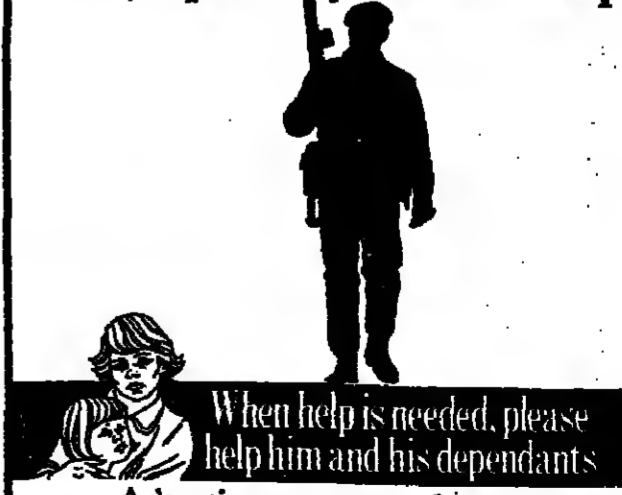
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## THE ARTS

## Heartbreak House/Haymarket

B. A. Young

Let's bear a little less about the disaster facing the West End theatre when it can offer us a production as splendid as this, cast impeccably with its proper mood of stars, faultlessly directed, handsome to look at. The play is a broken-backed piece of work to which Shaw attached a conclusion that he had clearly not thought of when he began, but with such a wealth of good conversation and powerful (if not necessarily sensible) argument, the unexpected arrival of a Zeppelin after two hours with no mention of a war is easy to accept. It's no more unlikely, after all, than the unexpected arrival of Captain Shotover's former boatwain Billy Dunn, and in fact is rather more relevant to what has gone before.

He is credibly a man who is resigning himself to the end of his, and our, days. What he was like in his younger times you can deduce from his daughters. Diana Rigg as Hesione, her hair swept untidily back from her face, her dresses loose and bohemian, is not a woman to be trifled with. Miss Rigg has a very expressive chin; it may be tucked in at her moments of repose, but when she pushes it forward, when, for instance, she holds that "You can't bury a man alive for ten years for a few diamonds," she is as firm as a rock.

Her sister Ariadne is portrayed by Rosemary Harris as an archetypal governess's lady, frivolous no doubt in some of her opinions but never in her treatment of her fellows. Poor Randall, played by Simon Ward like a cross teddy-bear, is utterly under her power, no matter how angry he may be.

The other men are too weak to be taken seriously in such company. Paul Curran gives Mazzini Dunn the happily vacant look of a stage parson, so when he says something unusually sensible, as indeed he often does, it seems the more remarkable. Mrs Mangan, looking like a Birmingham business woman and sounding like a Cockney born and bred, is perhaps



Diana Rigg and Rex Harrison

Alastair Muir

too obviously lower-class as Frank Middlemass plays him. A man who is trying through his financial success to win a beautiful wife and to run the Government might be likely to pay extra attention to his looks—not a lovely curly mustache like Mr Whitehead's, perhaps, but some really smart clothes. He is desperately fearful, not an uncommon effect of exposure to the women in this play.

The most substantially hypnotic of the women, and the most powerful, is Mrs Martin's Ellie Dunn. She begins like an offended young lady applying for a job as a governess, but after a beautifully charmed climb up the influential ladder, she is properly placed at the centre of the company in the last act, sitting by Shotover like a queen by a king. Jocelyn Harbert's garden scene pursues the nautical feeling set in her design for Shotover's house.

The director is John Dexter, so every last joint of every last finger is beautifully organised. Am I being hypercritical in asking for a whistle before the bombs explode? We know now, alas, what Shaw didn't see at the time, how bombs sound when they fall on us.

## Book Review/Clement Crisp

## The immortal swan



Pavlova

Anna Pavlova died, a flame finally exhausted, in The Hague in January 1931. In the half-century since then her legend has not faded. The idea of her genius has not waned in the consciousness of a public which now knows her only as a name, an image on some scraps of film and myriad photographs. She still seems an incarnation of the dance as she was to the world during her lifetime.

To try to explain this phenomenon there have been books, monographs, biographies variously admiring, and a continuing fascination with her art. At her death she was transformed into an icon figure by public distress at her passing, legend, misinterpretation, have since then debased and clouded the facts of her life and the real nature of her greatness.

These seem to me central truths about Pavlova, and it is to the great credit of Keith Money's new biography that he has so largely succeeded in understanding the nature of Pavlova's artistry end of her mission during the 32 years of her dance career.

Anna Pavlova, *Her Life and Art*, by Keith Money, 250p, £12.95. The first scholarly and comprehensive study of the great dancer that has probed into the available historical material, and by substituting fact for hearsay and biographers' intuitions, provides an honest and revealing portrait. It is excellently done, massively illustrated with photographs, whose reproduction in tribute to Mr Money's own skill as a photographer and his desire to show every print at its best.

The result is a monument to Pavlova's genius (for once the word can be honestly applied) and, Money notes, her "phenomenal energy which impelled her in an unceasing, unsparing mission round the world. She danced everywhere, from the greatest theatres to a building in Mexico City (where she quelled an audience driven to near riot by rain-storms and appalling sight-lines by donning her Swan costume and silencing every complaint with *pas de bourrée*); and this before an evening performance at a local theatre.

As Keith Money suggests, here was a manic temperament. "She lived on stage; everything beyond it was a mirror land," and he shows how Pavlova's zeal for dance came from a central belief in ballet as a message for the world, how "she would sacrifice everything else in order for that message to be seen."

That Pavlova was, in essence, "possessed" by her genius for dance, dominated by it as her destiny, and had a transcending belief in her own identity as its vessel, explains her mission round the world. She danced everywhere, from the greatest theatres to a building in Mexico City (where she quelled an audience driven to near riot by rain-storms and appalling sight-lines by donning her Swan costume and silencing every complaint with *pas de bourrée*); and this before an evening performance at a local theatre.

York, like every other city in which she danced, was at her feet.

And so the pilgrimage began in earnest. "What Pavlova danced, what she meant to the public, is scrupulously detailed by Money's culling of contemporary and his churning of performance facts in the career now seem uncertain, and Pavlova herself emerges as a compulsive, driven performer, miraculously able—and here the core of her genius—to keep her art ever fresh.

And ever-communicative. There was clearly no audience which did not succumb to the intensity of Pavlova's presence, or fail to respond to the light of her artistry. Certainly the camera could not resist her. In this the testimony of the hundreds of photographs in this book is vital. Her manner, extraordinary, and extraordinarily enduring.

Money reproduces two reference photographs taken by the sculptress Malvina Jeffmann in 1924 for a portrait bust, and without any conscious artifice by the sitter the ravishing bone-structure, the dreaming income de la Seine face, exert a spell quite as potent as that of the girl 20 years before who is shown, in the head-dress for a Moscow staging of *Pharaoh's Daughter*. In the full radiance of youth, Pavlova's photographs, even though she was given to re-touching her feet on negatives to produce impeccable, improbable points, the neither about her magical qualities of emotional communication, nor about a sublime dance physique.

Even in the last year of her life, at the age of 47, the stretch of the limbs, the uncanny hermetic of pose, and the psychic force of her personality, seem burned into the picture. Whatever the role, whether movement is meticulous, or sung ecstatic to the winds, the life of the dance is radiantly wonderfully presence. Through these illustrations, as through his long and scrupulously detailed text, Keith Money has presented as much of Pavlova's greatness as we can now expect to know. And his book becomes a renewed affirmation of her genius.

## BBC Symphony/Festival Hall

Dominic Gill

The BBC Symphony Orchestra's live broadcasts from the South Bank have an audience programme may be, the temptation is great to stay at home and flick a switch. There were barely enough people in the Festival Hall for the orchestra's performance of Bartók's *Bluebeard's Castle* last Friday night to make the applause sound convincing; but such as there was seems to have been heartfelt. It was not a reading of the highest drama, or the sharpest point; but the playing at least was honest, and attentive. Even at somewhat less than full charge, Bluebeard is a thrilling work.

Peter Eötvös's direction was disappointing, none less than capable, but curiously slack when impetus was needed, unfocused at key moments. Fast tempi tended to plod; fine instrumental detail was often overlooked. There were no signs at the First Door (although they are part of Bartók's score) — only a second's silence before the music con-

tinued. The effectiveness of the organ entry in the Fifth Door is less a matter of sheer dynamic weight than of dramatic timing; Eötvös caught it only slightly off-balance, but enough to dilute the effect. The two soloists were the lynchpins of the evening: the marvellous Bluebeard of Evgeny Nesterenko, smooth, fine-grained of tone, darkly expressive; and Julia Hamari, full-voiced.

In the first half of the concert, the soloist in Liszt's *E flat piano concerto* was Christian Blackshaw—whose big, bright tone and agile articulation compensated amply for a certain lack of *passionato* sensuousness (most likely the result of nerves). A crisp and likeable performance; Blackshaw also deserves a special prize for being the first pianist I have heard in years to observe Liszt's pedal-buzzes in the slow movement to the letter. To open the programme, Liszt's *Appassionata* of 1859: a chorus of netherworld instrumental voices, flitting to the edges of silence.

## Northern Sinfonia/Elizabeth Hall

Max Loppert

In defiance of hard times (and the pressures to play safe that always accompany them), the Northern Sinfonia persists in the extrinsic habit of slipping into its London concerts works from outside the safe pastures of programme provender. On Friday the choice fell on Albert Roussel, and on his *Concerto for small orchestra*, Op 84.

Roussel's music, never earth-shaking in its ambitions, always so sanely and clearly shaped in sound, is yet far more than the work of a respectable 20th-century *petit maître*; the vigour and freshness of his thought processes offer challenge as well as certain pleasure to the listener. Though executed on a small scale, the concerto provides a happy sample of his art; its three movements, tautly worked out on a *cancerto grosso* model, are all streaked (never crudely daubed) with the oriental tints that were an intrinsic part of his fastidious, questioning musical personality. The central Andante, throwing out solo

tendrils above a slow-moving bass, beautifully harmonises exotic and classical viewpoints in a way that seems peculiarly (and traditionally) French: from the orchestra it received the evening's most refined playing.

The conductor was Jean-Bernard Pommier, who attended to the whole work with a light yet precise hand. For the rest, M Pommier, better known as a distinguished pianist, was a workaday orchestral director, secure but uninspired. In Schubert's *Overture in Italian Style*, the texture remained opaque, the rhythm heavy (this hall demands far more stringent balancing of parts than most visiting chamber orchestras are apt to supply). Eugene Istomin, pianist in Mozart's *C major Concerto*, K467, appeared to be aiming at a loftier impression of the music than his accompanist; the effect of the whole was lopsided, though in purely vocalised terms, Istomin achieved a thoughtful characterisation of detail.

amazing finesse over his whole compass (which stretches far further than you probably think), and he deserved the special spotlight of Nilsson's song-haunted exercise. The melodic writing is bland at bottom, but in context it serves to effect of the whole. The effect of the whole was lopsided, though in purely vocalised terms, Istomin achieved a thoughtful characterisation of detail.

The Albany tuba boasts

## Albany Brass/Purcell Room

David Murray

The Albany Brass Ensemble, as constituted for their Saturday concert, proved to be a first-rate brass quintet of the usual composition: trombone, horn and tuba capped by a pair of trumpets. They have the modern virtuoso range which has at last encouraged composers to treat the medium seriously, and they are serious enough to look for music that does more than exploit that range. They made a reliable sound in the little Purcell Room,

by the way, not at all daunting to the ears of one's ears much more fiercely. And if basic brass timbre is more homogeneous, less suggestively individual than the woodwind spectrum, the brass variety of tones is endowed with broader range of bold contrasting colours.

The promised new work by Nerezh Sobal was not given, but there were first performances of quintets by John Metcalf and John Howard and the

UK premières of another by Sandor Belassa and of Bo Nilsson's "Bass for Tuba" (with gongs), besides crisp divertimenti by Bozza and Malcolm Arnold. Metcalf's neat little piece is a sort of organised collage, chuckle, muted bubblings generated from simple musical material. Howard's Quintet displayed soberer, more extended ambitions; well-crafted, it was neutrally mild in effect.

The Albany tuba boasts

amazing finesse over his whole compass (which stretches far further than you probably think), and he deserved the special spotlight of Nilsson's song-haunted exercise. The melodic writing is bland at bottom, but in context it serves to effect of the whole. The effect of the whole was lopsided, though in purely vocalised terms, Istomin achieved a thoughtful characterisation of detail.

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## The Oedipus Plays/Oxford Playhouse

Michael Coveney

After *The Greeks* at the RSC and *The Orestia* at the National, Sophocles' *Theban* plays in a new version by Stephen Spender at the Oxford Playhouse. In just over three hours we have *Oedipus the King*, *Oedipus at Colonus* and *Antigone*. The last was the first to be written and, beyond following the story from Oedipus's discovery of the horrific truth to the death of his daughter in defiance of Creon's insensitive edict about not burying Polyneices, the trilogy is not really a coherent proposition.

However, these three great plays do constitute an impressive evening of theatre and Mr Spender and his director, Gordon McDeagall, have imposed a narrative and thematic consistency on them that is, for the most part, fascinating. Creon, bullishly played by Arthur Cox, emerges as the central figure, not Oedipus. Creon's political ambitions are, in the end, overtaken by the personal disaster. He causes the deaths of Antigone and his son Haemon

like a keyhole. For the middle play, designer Saul Radomsky has boldly created a Colonus of orange sun, strong brown horizons and tubular foliage. His splendid work is slightly undermined by costumes that are mostly made up of striped pyjama bottoms, open-toed sandals and Nativity play warp and wool tunics.

As for the performances, it is not just Creon's political defiance that places him centre stage. Richard Durdin's Oedipus is an often risibly lightweight reading, good at conveying the selfish petulance of the opening scenes (his cowardly lunge of murderous accusation levelled at Tiresias is a revealing moment) but hopelessly at sea in the grip of despair. En route to Colonus he acquires a bad wig and a pouty eye-mask that renders him irresistibly comic. In the emotional exchange with the treacherous Polyneices, admirably and movingly played by Doug Fisher, his denunciation is delivered with callous monotony as his son shudders tearfully in filial obedience. This may, of course, be the

point the production is trying to make, that Oedipus is a man of unimaginative arrogance. But this leaves on the abiding serenity of the exiled king, his increasing reliance on his loyal daughters. In *Antigone*, how Creon rejects the claims of women on his attention with a torrent of unabated scorn for their sex in all public and domestic matters. Katharine Rogers's *Antigone* steps in here to give courageous argument, both in deed and word. This heroic woman emerges in marked contrast to the caustic dignity of Moira Redmond's exotic Jessica in the first play.

I am not convinced by Mr McDougall's handling of the Chorus, who seem an odd mix of jive dandy and indeterminate extra. On realising they have found Oedipus on Colonus, they all stagger back amazed with a big "Ooh!" Such false notes abound, as do several others from the players' little band on stage musicians who discharge themselves of a somewhat scrappy score for wind, balalaika, percussion and bass.

## Arts Guide

Music/Monday, Opera and Ballet/Tuesday, Theatre/Wednesday, Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

## Music

## PARIS

Badura-Skoda with duo Nadine Palmer and Joel Rigat: Mozart (Moz 6.30). Pinesha: Zukerman, Marek, Schumann, Bartok (Mon, 8.30) both concerts TNP-Chatelet (261 1883).

Colonne Orchestra conducted by Claude Gordon, Cristina Ortiz, pianist. Colonne Orchestra Choir conducted by Jean Sourisse: Falla, Debussy, Ravel (Mon) Salle Pleyel (563 8673).

Orchestra de Paris conducted by Daniel Barenboim, Claudio Arrau, piano; Debussy, Delort, Brahms (Wed, Thur) Salle Pleyel (563 8673).

## WEST GERMANY

Frankfurt Alce Opera: Pinesha Zukerman, violin, Marc Weikrug, piano; Schubert (Thur).

## VIENNA

Konzerthaus (71 211): Radu Lupu piano recital: Schubert, Schumann (Mon), Vienna Symphony Orchestra, Shostakovich Symphony No 4 and Beethoven piano concert No 4 with soloist Radu Lupu (Thur).

## BRUSSELS

Theatre Royal de la Monnaie: National Opera Orchestra conducted by Pierre Bartholomew with Gilbert Zanghetti, cello, Carola Farley soprano and Peter Gottlieb, baritone; programme includes the première of the final act of the last act of Beethoven's "La Passion de Gilles".

Palais des Beaux Arts: Gala evening in aid of the Belgian Multiple Sclerosis League with the appearance of 6 pianists and 4 violinists conducted by Rudy Wethers: Mozart, Vivaldi, Rachmaninov (Mon). Festival Strings of Lucerne directed by Rudolf Baumgartner with Peter Leisinger, cello; Corelli, Purcell, Beethoven, Mozart (Wed). Christopher Eschenbach and Justus Franz, piano — Brahms's complete works for four hands and two pianos (Thur).

## ZURICH

Toshalle: Kemal Ataturk violin, Ahmet Ediz viola and Boris Merenson piano playing chamber music by Beethoven, Handel and Brahms (Mon). Festival Strings of Lucerne directed by Rudolf Baumgartner with Peter Leisinger, cello; Corelli, Purcell, Beethoven, Mozart (Wed). Christopher Eschenbach and Justus Franz, piano — Brahms's complete works for four hands and two pianos (Thur).

LONDON Philharmonia Orchestra conducted by Neville Martin with soloists Norma Burrows and Ann Murray playing excerpts from Mendelssohn's *A Midsummer Night's Dream* and Holst's *The Planets*. Royal Festival Hall (Tue) (263 3191).

London Symphony Orchestra conducted by Claudio Abbado with Rudolf Serkin, piano, and soloists Margaret Price, Elisabeth Harnoncourt, Dina O'Neill and Paul Pliska; Mozart

Piano Concerto No 25 and Walsem-hausmesse, Barbiere (Tue 6.30) (435 8601).

## NEW YORK

New York Philharmonic: (Avery Fisher Hall, Lincoln Center): Christoph von Dohnanyi conducting: Haydn, Heaz, Dvorak (Tue); Rafael Kubelik conducting, Alicia de Larrocha piano. All Beethoven programme (Thur). (874 2424).

Carnegie Hall: Cincinnati Symphony, Michael Gilels conducting, Crumb, Bruckner (Mon); National Orchestra of New York, Mehli Mehta conducting, David Bar-Ilan piano; Wagner-Strauss (Tue); Dresden Staatskapelle, Herbert Blomstedt conducting, Zimmermann, Strauss, Beethoven (Wed); Prague Chamber Orchestra, Boris Kravtsov piano, Mozart, Cerny, Medvedev, Honegger, Martinu, Haydn (Thur) (247 4739).

## WASHINGTON

National Symphony (Concert Hall, Kennedy Center): Matias Rostropovich conducting, Walter Klein piano, Galina Vishnevskaya soprano. World premiere of Ezra Laderman's Symphony No. 5 ("Island"). Foote, Mozart (Tue, Wed, Thur). (254 3776).

## CHICAGO

Chicago Symphony (Orchestra Hall): Erich Leinsdorf conducting, Webern, Brahms, Martinu, Bach (435 8122).

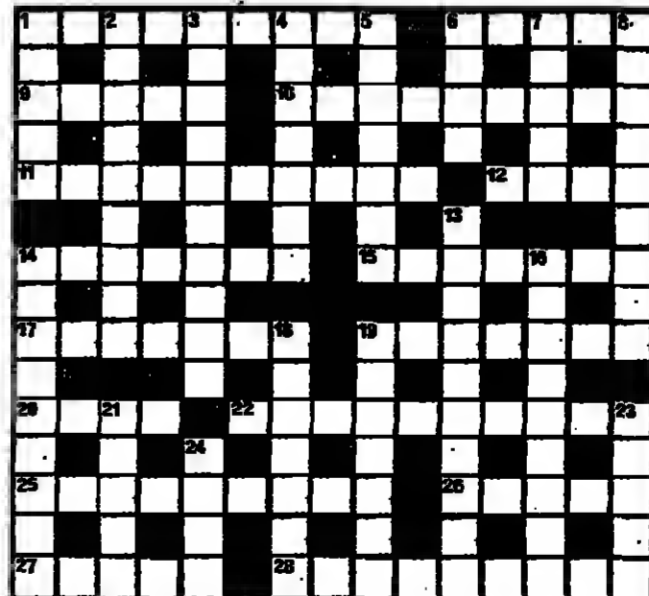
## F.T. CROSSWORD PUZZLE No. 5121

## ACROSS

- Scatter bad actors? (9)
- Wines returned to make cheap (5)
- Pass on part of broken down-pipe (5)
- Cover the inside of artifice and change into a contour (9)
- Hard labour for the organist (6, 4)
- Bearing a bristle (4)
- Stripped a horse turning in an act (7)
- Feeble youth extracts money from work (7)
- Dare softly to begin again (7)
- In favour of a protective device that's plentiful (7)
- Inferior remnant of a former parliament (4)
- Genuine one, made of fur, is capable of being converted into money (10)
- Publish more than anyone else in the greatest possible degree (9)
- Cruel persons spill gore in front of pole (5)
- Make an effort and put a cross in backward tree (5)
- Type of roll to choose for use in the month (9)

## DOWN

- English guitarist right in the limelight? (5)
- Regulation putting other ranks in rhythmic steps outside (9)
- At the end of one's resources like an unsuccessful boxer (4-3-3)



- Permitted everyone to be indebted (7)
- Characteristic smell of sheep could puzzle the Chinese (7)
- Break a hiccup (4)
- Bring up the subject of Arise in declension (5)
- Fruit under tree, but it didn't come from it (9)
- Initiates left at sea hunting, for example (5, 5)
- Leaving some French component on river (9)
- One who sleeps through short sermon about useless articles (9)
- Something very ugly I saw it's said (7)
- Painter's accessory allowed to enter the head (7)
- Turn a corner with German soldiers (5)
- Artistic supporter left after rest (5)
- Worry about an ornamental border (4)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

## Solution to puzzle No. 5119



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## \* International Property Review

Every Friday the Financial Times publishes a detailed review of the activities in the UK and international property markets.

Specialist FT writers look at the background to the week's headline-making news, profile leading personalities and examine trends in the property development market.

Similarly every Monday Financial Times journalists turn their attention to the building and engineering fields with particular emphasis on recently-awarded British and international contracts, general industry news and feature articles on major developments in these important economic sectors.

## FINANCIAL TIMES

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Monday March 14 1983

## Time for fresh offer on arms

A MONTH has passed since the U.S. vice-president, Mr. George Bush, returned to the U.S. to report to the President on the attitudes of European governments towards the deployment of intermediate-range nuclear missiles in Europe. At his last stop, in London, he confirmed that the U.S. was willing to move on from its "zero option" proposal to the Soviet Union at the disarmament talks in Geneva. He talked of three principles governing any compromise: the number of such missiles must be at the lowest possible level; they should provide equal forces for the U.S. and USSR; and any such agreement must be verifiable.

Since then there has been no fresh initiative embodying these principles from the U.S. and the INF talks have remained in limbo. This was an understandable state of affairs as long as the uncertainty over the outcome of the German election persisted. Any fresh offer advanced by the U.S. would have been undermined in Russian eyes by the possibility that America's most important European ally would not accept the installation of new U.S. missiles in any case. With Helmut Kohl's victory for the conservatives in West Germany that possibility has been greatly diminished. This has significantly reduced a reason for U.S. inactivity in the talks, and it has removed the excuse, Disquiet over the deployment of U.S. missiles in Europe remains a potent political issue in the U.K. and the U.S. needs to seize the opportunity created by the German election to regain the initiative in the negotiations. A show of good intention will further strengthen the U.S. bargaining position, protracting the talks and apparent complacency might provoke further political unrest in Europe and weaken it once again.

In the week since the German election the signals from Washington have, from this point of view, been disquieting. President Reagan has mounted a fresh campaign to persuade U.S. and European public opinion of the continuing pace of the Soviet Union's arms build-up and of the malicious intentions that lie behind it. This campaign was, in part, a riposte to the growing movement within the U.S. in favour of a "dash to zero" nuclear armaments of the two superpowers. But whatever prompted it, and however justified its message, it created

an unfortunate impression in Europe that the U.S. was now breathing easily about allied solidarity and losing interest in the idea of progress in Geneva. In hanging on to the "zero option" — no deployment of U.S. intermediate-range missiles in return for the dismantling of all the Soviet equivalent — the U.S. risks making the best solution an enemy of a good one. It would be much more constructive to build upon the German election's boost to the U.S. bargaining position and to propose an interim solution involving a more limited U.S. deployment of Cruise and Pershing II missiles, a substantial reduction of Soviet weapons, and an insistence upon the ability of each side to check the arsenal of the other. Such an offer would combine self-restraint with a continuing threat of American deployment of some new missiles. It would place the onus for further progress squarely back on the USSR.

## Stockpile

The negotiating timetable dictates that such an offer must come quickly. The talks in Geneva break up for a two-month recess on March 28; it would be risky to allow the impression of stalemate to persist in Europe into the summer. The new offer should be flanked by two other moves. First, there needs to be much more emphasis on the readiness of NATO to reduce the quantity of existing nuclear warheads in Europe as and when any new weapons are deployed. The NATO High Level Group met in Brussels last week to discuss the reduction of the stockpile. It is believed that a substantial quantity of weapons could be removed without affecting the credibility of NATO's deterrence. Such compensating reductions were always part of the NATO plan to introduce new missiles, but European public opinion remained extraordinarily ill-informed of them.

Second, the U.S. should propose, alongside its new offer, that Mr. George Shultz, the U.S. Secretary of State, and Mr. Andrei Gromyko, the Soviet Foreign Minister, should meet to discuss the terms suggested by the U.S. and to relate them to the other set of talks taking place in Geneva, on the strategic weapons of the two superpowers. Now that the U.S. is on German support it is time for President Reagan to make the running again in this matter.

## New partners for Rolls-Royce

BRITAIN'S Rolls-Royce and Pratt and Whitney of the U.S. — two of the world's three major aero engine builders — last week signed an agreement, together with companies in Japan, Germany and Italy, to develop and produce a new engine for short to medium-range 150-seat airliners. If the agreement is implemented, there are some important legal and commercial hurdles to be overcome — it could, for example, be waterlogged for the U.S. by the fact that Pratt and Whitney came very close to collaboration on a new engine in the mid-1970s. In the end Rolls-Royce decided to go it alone with the Dash 8 engine of the RB211, which became the launch engine for the new Boeing 737. Pratt and Whitney developed its own engine for the same market and competition between them has been fierce.

The wisdom of Rolls' decision to pull out was questionable at the time and has been made more so by the prolonged recession in the world airline industry. Since 1980 orders for new airliners have declined at a precipitous rate, forcing Boeing, Airbus and their engine suppliers to slow down production.

## Development cost

At the same time the engine builders are obliged to spend large sums on improving their current engines and on preparing for new ones. For example, at the end of last year Pratt and Whitney announced what it claimed was a "big thrust" new design in the "big thrust" class of aero engines, aimed at wide-bodied aircraft such as the Boeing 747 and 767, and the European A300 and A310 Airbus. Rolls-Royce has to decide whether to improve its own "big thrust" engine, the 524 version of the RB211 or to start from scratch with a new engine. This comes at a time when the company faces the need for large development expenditure at the lower end of the range in turbo-prop and business jet engines.

The cost of developing a

major new engine can run as high as \$1bn and it is increasingly doubtful whether the market is large enough to sustain all three major companies competing across the board. It was to spread the costs of development that Rolls-Royce first turned to the Japanese as partners in the proposed RJ500 engine of about 25,000 lbs thrust; this partnership has now been extended to include Pratt and Whitney, Fiat of Italy and MTU of West Germany. The other member of the "big three" — General Electric of the U.S. — has a long-standing partnership with Snecma of France and this joint venture is also developing an engine for the 150-seater market.

Next month new chairman takes over at Rolls-Royce, Mr. William Duncan, formerly a deputy chairman at ICL. He and the Government face some difficult strategic and financial decisions. Government support for the company has been based less on strict calculations of profit than on the general desirability of maintaining the British position in the top league of aero-engine builders. The RB211 has won a respectable share of the world market, but prospects for further sales in the U.S. are looking more difficult while Rolls-Royce does not as yet participate in the Airbus programme. There is a risk that the civil side of the company's business could become a heavy cash drain.

In these circumstances last week's agreement makes excellent sense. The fact that Pratt and Whitney will nominate the managing director of the new company shows that Rolls-Royce is willing to work under American leadership and independence in aero-engines is not an end in itself. Partnerships on specific projects will ease but not eliminate the underlying problem — that investment in major new civil engines is enormously risky and takes a very long time to show a return. In that sense Rolls-Royce poses a more awkward set of choices for the British Government than other state-owned concerns such as British Leyland and British Steel. But the starting point is the same — a realistic assessment of the market and of Rolls-Royce's place in it.

AFTER three long years of recession and an over-valued pound, Britain's manufacturing industries are leaner than ever, but large parts of them are certainly not fitter. Indeed, many basic engineering sectors have been so weakened by the loss of sales volume that there are doubts about whether they could cope with a strong recovery. A few sectors are on the verge of collapse, which would mean the loss of the ability to make certain key products in Britain. "Any further rationalisation would be decimation," says Mr. Terry Davies, assistant managing director of Birmid Quilcast, the leading independent foundry group.

His is a grim reminder to Sir Geoffrey Howe, the Chancellor of the Exchequer, on the eve of the Budget, of the fragility of much of British manufacturing industry.

Although forecasts suggest that the long-awaited recovery may now be a little closer, many manufacturers to whom the FT has talked recently still see no clear signs of it in their order books.

Not are they optimistic that the recent sharp decline in the value of sterling will translate quickly into improved home and export market shares.

"The foreign exchange rate could have some impact, but it will take some time," Mr. John Devaney, director of sales and business development for Perkins Engines, explains. "Foreign producers may choose to hold their prices and take less profit in the hope that sterling will go up again soon."

His scepticism is shared by many of those interviewed in the special FT opinion poll reported elsewhere in today's paper.

Three years of recession and the overvalued pound have taken a terrible toll in manufacturing output and employment. Production is down by 17 per cent since 1979 and the number of people employed has fallen by over 1.5m.

Until about a year ago, it was widely believed that the shake-out was about far rather than muscle — getting rid of over-manned, over-capitalised, over-indebted working practices and other inefficiencies. Many executives thought their companies were getting fitter as well as leaner.

Since then, the relentless rise in import penetration in some major sectors has become widely recognised as a big obstacle to any widespread return to health.

Since 1980, the volume of imports of manufactured goods has increased by 10 per cent while the volume of exports has dropped by 4 per cent. Last year, for the first time in over a century, Britain suffered a deficit in manufactured goods of \$2.3bn on an overseas trade basis.

Almost every sector of manufacturing industry has been affected, with production volumes much lower than might have been expected. In turn, this has undermined efficiency and profitability.

Most of the new engine can run as high as \$1bn and it is increasingly doubtful whether the market is large enough to sustain all three major companies competing across the board. It was to spread the costs of development that Rolls-Royce first turned to the Japanese as partners in the proposed RJ500 engine of about 25,000 lbs thrust; this partnership has now been extended to include Pratt and Whitney, Fiat of Italy and MTU of West Germany. The other member of the "big three" — General Electric of the U.S. — has a long-standing partnership with Snecma of France and this joint venture is also developing an engine for the 150-seater market.

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Profits up 8 per cent! — I would have expected at least a thank you letter about my overdraft.



## BRITISH MANUFACTURING INDUSTRY

## Leaner . . . but weaker

By Ian Rodger



End of an ICI plant at Stevenston, Strathclyde

Roger Taylor

One of the most damaged areas is the foundry industry which produces the basic castings for engines and hundreds of other machinery components.

The foundries face little direct import competition, but volume has been slashed because of the big increases in the UK market shares of imported cars, commercial vehicles, tractors, machine tools and other machinery.

Production of ferrous castings plunged from 2.7m tonnes in 1979 to 1.5m tonnes last year, and foundries have been closing at a rapid rate.

"The next closure might be the last diesel head foundry in the country or the last automotive brake foundry," says Mr. Davies.

He and other leaders in the foundry sector claim they have done all the right things in the past few years — investing in new production technology, developing export markets and closing manpower — but they are powerless to stem the decline of their principal customers, the engine and vehicle manufacturers.

The customers share the foundry's anxieties. There are some big guys we're dependent on who are in real trouble," says Mr. Tim Solso, managing director of Holset Engineering, the leading manufacturer of turbochargers for diesel engines.

"We're very worried about it," another major machinery manufacturer reports that he has watched his traditional supplier of a high quality aluminium castings go out of business, then a second one follow.

"We have gone to a third supplier, but he does not have the expertise," he says. "In strategic components, we have started taking the precaution of developing sources outside the country," he said.

Mr. Bill Dalton, managing director of Torex, the construction equipment maker, worries that when—or if—the upturn comes, the company's traditional subcontractors would no longer be there.

"I'm afraid we might end up building a lot of cripples" (machines missing parts), he explains.

Other sectors that have declined to a critically weak state include machine tools and special steels. Aurora Holdings, the only remaining full range producer of special steels, is in the process of closing down its last steelworks at Openshaw, Manchester.

Despite successive rational-

isations, the group was still losing roughly £100,000 per week early this year on its special steel business. The decline in demand for tool and high speed steels during the recession has played a part, but the surge in imports recently has been the main factor. Imports have risen from 26 per cent of UK sales in 1975 to about 60 per cent today.

And the key to this sort of rise in a commodity-type industry is price. A commodity-type industry is one in which there is little or nothing — save price — to distinguish one manufacturer's output from another's.

The machine tool industry has suffered the same rapid increase in import penetration, from 28 per cent in 1975 to 57 per cent in 1981, and even machine tools have been maintained electronically controlled machine tools.

exporter in 1979 to a net 31 per cent importer.

"The exports have remained constant," Mr. Ken Papiou, director of the British Industrial Fasteners Association, says. "The domestic market that has been lost."

There have been mergers and substantial rationalisation especially at the leading producer, GKN. Manpower in the group has been halved to 20,000 but there has been only a handful of company closures and no loss yet of basic capacity.

"The capacity is still there and, unless there is an abnormal surge of demand, we are well geared to cope."

The drop forging sector has also seen its workforce halved (to 14,000) and its output fall 45 per cent since 1979, but machinery has been maintained — much of it in mothballs — and producers are confident that

they could cope with an upturn. "There is a surprising resilience," Mr. David Lewis, director of the National Association of Drop Forgers, says. "Our capital equipment is more flexible than most. It is easy to mothball a press or a hammer and wait for things to improve."

Most manufacturers seem sceptical about an early recovery in UK demand and about gaining any early benefit from the recent sharp fall in the value of sterling.

Mr. John Allenby, managing director of Lansing Bagnall, the leading UK lift truck manufacturer, said there had been no change in the group's order position since last autumn, and it was operating profitably — at 40 per cent of capacity.

Importers have almost doubled their UK market share in the past four years to about 30 per cent, and the company is eager to win back lost customers, but it doubts that progress will be rapid.

"Importers are working from stocks, which will take a lot of soaking up," Mr. Allenby says. "There has been no easing of competition so far, but their margins must be hurting."

It is, of course, the motor industry that is vital to the survival and prosperity of much of general engineering. The British car and commercial vehicle makers have declined drastically in recent years, largely because of increased import penetration and the difficulty of competing in export markets.

Car registrations have fallen by 9.4 per cent since 1979 but UK production has tumbled 17 per cent in the same period. Commercial vehicle registrations are down 23 per cent but production has plunged a third.

Britain's relatively small, independent commercial vehicle builders face a tough fight to win back market share from the big integrated European producers, and the devaluation of

sterling is unlikely to have much impact in the short term. But as the car sector, which is fairly optimistic about its chances of building market share at home and improving export sales, especially of Range-Rovers and Jaguars, after the devaluation.

In the home market, importers, led by the Germans, are pushing for a long and painful rationalisation and modernisation programme. Austin Rover is in a stronger competitive position.

Unfortunately, B.L. does not seem to be backing up its optimism yet with a significant build-up of component ordering, but that could come soon.

The picture in other industries is mixed. The textile and garment industries, for example, will have a hard time pushing back the heavy burdens made by imports. Import penetration has risen to nearly 70 per cent of all textiles and garments sold from about 30 per cent 10 years ago and employment has fallen from 800,000 to 525,000 since 1979.

On the other hand, industries making commodity-type products are already showing significant recovery since Christmas. Steel production last month, for example, was 35 per cent ahead of the rate last autumn.

"Since Christmas, all this talk from customers about the need for rationalisation has stopped completely," Mr. Ken Knaggs, managing director of Manchester Steel, says.

Another reason for the upturn is that consumers are buying in advance of expected price increases next month.

Price increases have also been successfully imposed recently by Pilkington Brothers and British Celanese, the companies which dominate the flat glass and aluminium manufacturing sectors respectively.

Import penetration in both these industries has increased sharply in the past few years. Both companies have made heavy losses on their UK operations and are operating well below capacity.

"The chemical industry is trying hard to raise its prices but pressure from the very strong German producers has not subsided."

One promising trend is in domestic appliances where, after major rationalisation and modernisation, UK manufacturers finally began last year to roll back the big increases in penetration made, mainly by Italian producers. Some companies are even daring to look at export markets again. There were 23 UK exhibitors at the Domo Technica in Cologne last month.

Despite the occasional good news, the picture emerging from the heartland of British industry seems very somber.

After three hard years, many company executives may be taking an overly cautious view of their prospects. But it is difficult to see how some important sectors can ever recover their international competitiveness.

## Men &amp; Matters

## Ins and outs of Antony Gibbs

David Macdonald, former director-general of the Takeover Panel, once vice-parent of Bill Samuel, the man who in 1980 took over as chief executive of Antony Gibbs, the small City merchant bank, steps down tomorrow in what are being termed "procedural changes," at Gibbs.

Macdonald departs less than three years after accepting the challenge of a lifetime — the unlimited scope of rebuilding a merchant bank which was unceremoniously booted out of the select Accepting Houses Committee after its takeover by the Hongkong and Shanghai Banking Corporation.

Why is he leaving, to be replaced by Stanley Harding, a Gibbs director and former finance director of Thomas Tilling? And why, at the same time, is John Boyer, Gibbs' chairman, making way for Tom Welch, Hongkong and Shanghai's senior man in London?



Profits up 8 per cent! — I would have expected at least a thank you letter about my overdraft.

Welsh tells me that Macdonald's resignation is for "private reasons." But in the City the word is that Macdonald was unhappy about various changes at Gibbs, including a new requirement for closer ties with H and S's Wardley merchant bank in Hong Kong.

It is believed that Macdonald — whose work is expected to turn Gibbs' £3.1m loss in 1981 into a £1m-plus profit for 1982 — saw the London bank's autonomy under threat.

Welsh stoutly denies any loss of autonomy, Gibbs, he says, was "remained as it was" and has its own board, and control "its own destiny."

"There will be no major policy changes," he tells me. Though there may be "some shifts in emphasis in the business."

As for Boyer's departure, he assures me the timing is just a coincidence. He felt there was simply not enough to do at Gibbs and told the Hongkong top brass six months ago of his wish to leave.

## Right Lines

Yet another instance of Japanese industry's eagerness to learn and adapt — this time, it is turning to the Co-ordination of British Industry for advice on its relations with newspapers and television.

Reporters — myself included — have had some harsh things to say about the problems of printing on the clam-like corporate departments of some Japanese companies.

But some changes are apparently on the way. The Keizai Koho Centre, a social/industrial research body funded by Japanese industry, has ordered a Japanese version of the CBI's Abbey Life handbook "The Headline Business," which advises businessmen on how to work with the media.

The book was compiled a

couple of years ago by the CBI's parliamentary adviser, former political reporter, Squire Barradough. And the centre plans to distribute 3,000 copies among Japan's top companies.

It may not be easy to translate many of the problems of relations between British businessmen and the British media to the Japanese scene.

But the book contains plenty of useful, general advice if it is heeded. Toyota, at least, should have learned during its nine-months' negotiation with General Motors, the truth of the book's dictum that "a mere detail of a story can ensure its publication."

## Fit together

Midlands industry has had enough lectures about becoming leaner and fitter. But Alan Berry, urban barrister and often controversial champion of manufacturing industry, will set a new example to his staff when he moves in next month as director of the powerful West Midlands Engineering Employers' Association.

Colleagues at the neighbouring Coventry association, which Berry has headed for nearly 20 years, have got used to him setting the pace. He arrives early in the morning and often does his shorts for a vigorous workout on his exercise bike. "You might think it has something to do with a little weight problem," he laughs.

Berry has yet to discover whether there will be room for his hike — but the early start could be important as he is likely to be running both associations for the next few months while talks continue about a possible merger.

A pooling of resources by the two bodies could both yield economies and provide a stimulus to growth in a sector

ravaged by redundancies and closures.

The West Midlands vacancy arises from the retirement of Major Peter Forrest, a horseman, noted point-to-pointer and director of Warwick race course.

He will be an "active retiree," he says. But his negotiating skills will be employed in a field remote from the Midlands' shop floors.

Forrest heads the negotiating team for the racecourse trainers in their annual pay talks with the stable lads.

## Order of the bath

King Fahd of Saudi Arabia has had other things on his mind lately apart from the price of oil. His minions have been scouring the world to find him a perfect bathroom.

The search, I can report, is now over. The 68-year-old king has ordered 60 tonnes of red granite from a quarry in Manitoba, Canada, to build a royal bathroom.

George Lewko, part-owner of Midwest Quarries, refuses to say how much the granite will cost. But it is among the finest in the world, he says. "It has a rich, red colour, a warm grain structure and low absorption."

Fahd will get a solid tub. Lewko adds: "Seven tonnes of rock will be used for it, and it will be about three metres long and a metre deep."

## Well, I'm blown

From the staff magazine of a South of England company "Arnold" — who joined up as assistant personnel manager last month, comes to us from a similar appointment in Scotland. He was a Wind Commander in the RAF until his retirement in 1970, and was awarded the OBE in that year.

Observer

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Foreign Affairs

# Don't rely on the market

By Ian Davidson

ONE OF the more interesting sidelights of the Opec crisis has been the way the British Government has persuaded half the world that it is powerless to intervene in the pricing of the production levels of North Sea oil. Emissaries from leading oil-exporting countries pleaded with Mr Nigel Lawson, the UK Energy Secretary, to make a contribution to the Opec negotiations (even if only from off-stage), but they departed empty-handed. Even in the upper reaches of the International Energy Agency in Paris the impression seems to have gained ground that the British Government's hands are tied.

In fact, of course, the Petroleum and Submarine Pipelines Act 1975 gives the Government powers to influence both the rate of production and the price at which the oil may be sold. Even before the Act was passed, these powers were voluntarily circumscribed in 1974 by Mr Eric Varley, then Energy Secretary at the Labour Government: at that time North Sea production was quite small, and the purpose of these "assurances" was to give confidence to the oil companies so as to maximise the build-up of output. In particular, he undertook not to impose production cuts of more than 20 per cent, and then not before 1982.

In the middle of last year, Mr Lawson extended these assurances, by saying that it would not be his policy to impose production restraints before 1985. What distinguishes 1982 from 1974 is that North Sea output has grown very rapidly and now exceeds the equivalent of net British self-sufficiency by a substantial margin. If Mr Lawson's hands are tied, he tied the knot, and he could untie it — if he so wished.

It is easy to see why he has not wanted to get mixed up in any negotiations with the Opec countries: it is less easy to see why the North Sea should be pumping like mad during a period of world oil glut. In short, the diplomatic pleas from the Opec producers have indirectly revived the long-standing question of why it is that this Government sees no need for an oil depletion policy — at least not before 1985 when, according to the Department of

Energy, unconstrained North Sea production will hit its peak. The arguments against trying to do a deal with Opec are legion, and sometimes they seem suspiciously numerous. In the first place, it would look politically tacky. Almost all Britain's closest friends and allies (apart from Norway) are oil importers and they would find it outrageous if Britain attempted to line up with Opec against the interests of the rest of the industrialised world; in any case, Britain is part of the industrialised world, and would benefit from a fall in the oil price provided, as Mrs Thatcher has said, it were moderate and not precipitous.

Moreover, the long-drawn-out Opec negotiations bear eloquent witness to the elusiveness, and

## One reason why the Britoil sale was a flop

therefore the probable fragility, of any price-production arrangement. Given the current weakness of demand, it must be exceedingly difficult to know what prices and what quantities would be required to stabilise the market to the relative satisfaction of the divergent interests on the producers' side. The urgent need for some oil producers, like Nigeria, to increase their revenues and thus their market share, is liable to undermine any production deal; in Nigeria's case, this need can only become more intense as its presidential and general elections approach.

In short, these things are best left to market forces — which is also the standard formula for opposing a national oil depletion policy in the North Sea. The trouble is that the market is highly imperfect. On two occasions in the past four years it has been dramatically influenced by consumers; the panic buying in 1979, which drove the price through the roof after the Iranian revolution; and the consequent world slump which has finally succeeded in driving consumption below the minimum sales levels desired by the oil exporters. But in general it has been clear in the past, and it will become clear again if the world economy recovers,

that producer governments play a crucial role in influencing price and production. Oil has become a government business. That is one reason why the Britoil sale was a flop. The final argument against considering any deal with Opec is one which has regularly been trotted out to rebut German accusations that the British National Oil Corporation has been price-gouging, or Nigerian accusations that ENOC has been under-cutting: the North Sea — and here the official British voice assumes a pathetic tone — the North Sea is far too tiny to have any impact on the world market, and in this market Britain can only be a price-taker, not a price-maker.

This argument is obviously the clincher against any price stabilisation policy, with or without a tacit deal with Opec — or is it? It was certainly not stronger in 1979, when Opec was producing nearly 31m barrels a day and the UK North Sea was only at 1.8m b/d, less than net UK self-sufficiency. It looks very strong today, when the North Sea is currently pumping at around 2.3m b/d and Opec production has been down to around 13m-14m b/d.

Over the past four years Britain and Norway have increased their output from 1.4m b/d in 1978 to 2.3m b/d in 1982, whereas Nigerian production has fallen from 2m b/d to 1.3m b/d. On the face of it, it looks as though the North Sea has been increasing its share of (shrinking) market, largely at the expense of Nigeria.

North Sea companies would argue that Nigerian crude ought to be more expensive because it is of higher quality; but in Lagos such arguments may not weigh very heavily today, when the political and economic pressures to increase revenue by increasing market share. The key factor in the Opec negotiations is not that the North Sea is too insignificant to influence the market, but that supply, even after Saudi Arabia has cut its output from 10m b/d to less than 4m b/d, is still too large to stabilise the price at \$34 a barrel.

It therefore requires great faith in the beneficent power of market forces to suppose that they will necessarily, or even

most probably, bring about the result most desired by Britain: a moderate price drop, followed by a vertiginous drop followed, some time later, by an equally vertiginous rebound. The question arises whether the UK should not adopt a pricing policy which might effectively make more room for "high absorbers" such as Nigeria and debtors such as Mexico and Venezuela.

It also requires great faith in market forces to assume that they will automatically optimise the exploitation of the North Sea from the point of view of Britain's long-term national interest. They may optimise the interests of the oil companies, or they may optimise the short-term interests of the Chancellor of the Exchequer, but that is not necessarily the same thing.

The standard argument against a planned depletion policy is that the uncertainties over future price movements make it impossible to know what production profile would produce a better economic result all round than that which emerged from the free play of market forces. Interestingly, the Energy Select Committee last year argued against production controls partly for this reason, but also because it saw no reason to assume that governments would automatically take a longer view than the oil com-

## Ideologically, this should not be too difficult to swallow

panies. Is it an accident that Mr Lawson has extended the Varley assurances until a year which is certain to be after the next election?

In two or three years North Sea production will reach its peak and Britain will then begin to move towards dependence on oil imports from countries in whose internal stability or political goodwill we can have no confidence. We may then ask ourselves how it was that, in a world recession in 1982-83, Britain was exporting as much oil as it could, while Saudi Arabia had turned down a third of its maximum rate. Shall we answer



Nigel Lawson: 1985 pledge

that this was the beneficent working of the market?

It is often said, for example by the Select Committee last year, that the thrust of government oil policy should be the development of new funds — a depletion policy — rather than the control of production. It is not obvious why there should be any incompatibility between the two objectives. A reformed tax regime, based on profits rather than revenue, could offer suitable incentives for the development of small, high-cost fields, and a declared production policy could be helpful all round in planning future development.

It is also said that deferred production would cost significant amounts of money, which would have to come either from the companies or from the Government, or both. Now the companies would have little cause for complaint, since they have always known about the Varley assurances. Given the Government's heavy tax take from the North Sea, its forgone revenues would probably be larger than those of the companies, posing serious problems for a Government that wants to control the borrowing requirement and win an election. The size of the cost would depend, *inter alia*, on the size of the production cut.

Yet according to calculations by Kemp and Rose in the current Petroleum Economist, we already face the prospect of steeply declining government oil revenues later in this decade. If there is a collapse of the oil price, there could be a steep decline starting this year.

A deal with Opec may be futile and undesirable. A policy which is tailor-made to add the maximum downward pressure on the oil price right now, and which postpones any consideration of production restraints until 1985, when the North Sea will have reached its peak, does not seem a very inspiring combination, either.

The dangers to Britain and the rest of the world economy of violent movements in the oil price, and the dangers to Britain of over-dependence on exporting governments in the not-too-distant future, both point to a more interventionist approach, whose benchmark should be rough self-sufficiency. Ideologically, this should not be too difficult for Mrs Thatcher's Government to swallow; after all, it has just announced the spending of some tens of millions of pounds on a strategic stockpile of key minerals and metals. No blind faith in the market there, is there?

## Lombard

# A bias against employment

By Jeremy Stone

PRE-BUDGET discussion, almost as ritualistic an institution as the Budget ceremony itself, seems this year to have remained as obsessed as ever with guessing the Chancellor's "room for manoeuvre" and shifting the fiscal cake. Yet this preoccupation with the size of the Budget giveaway is mistaken at least twice over.

In practical terms it probably does not matter very much whether the Chancellor pushes £400 into the economy or nothing at all. The point of having a reflationary Budget is to raise the number of people in work, but estimates do not suggest that this traditional policy could now have more than a glancing impact. (The London Business School's recent critique of the Labour Party programme makes this point forcibly.)

At a more basic level (dictated by simple algebra rather than questions of economic evidence), it is not as if the Chancellor's freedom of action were limited by the stimulus he feels able to "afford". Even in a fiscally neutral Budget — one with zero stimulus — there is considerable scope for a Chancellor to provoke economic change.

Alterations to the rambling structure of taxes and subsidies can be individually large without affecting revenue, so long as they are mutually offsetting. And it is possible within this constraint to make significant shifts in some of the economy's crucial price relationships, improving the trade-offs between, for example consumption and saving or between work and (voluntary) leisure.

Sir Geoffrey Howe's Budgets have paid their respects to this principle. His increase in Value Added Tax is chiefly remembered for its effect in driving up the inflation rate after the 1979 Budget, but the thought behind it was to induce marginal saving (by those averse to paying the tax). And it has been common knowledge since early January that this year's Budget would raise tax thresholds and child allowances, aiming to disarm the poverty traps which subject people on low incomes to high marginal tax

rates (thought to deter them from seeking work). But the high and still rising unemployment level shows that encouraging people to enter the labour market should scarcely be the top priority; the main problem of that market just now is a deficiency of demand. In this context it is not surprising that industrial lobbyists have been clamouring for abolition of the National Insurance Surcharge, which is a flat-rate tax on the hiring of additional workers.

Arguments against the abolition (or even reduction) of the NIS have hinged on the idea that an income tax cut would be more effective as an instrument of reflation. This assumption that cuts in NIS would have to be financed by higher income tax is curious, for there is a much more appropriate offsetting adjustment to hand.

At the same time as we tax companies for adding to their workforce, with the other hand we subsidise additions to their capital stock by offering 100 per cent first year write-offs of new plant against corporation tax. Moreover, a flourishing secondary market in these tax incentives — the leasing industry — has enabled even companies with no taxable profits to plough on with labour-saving investment. So the system has a bias towards aver-lower labour intensity.

It is arguable too, that this bias is accentuated by current techniques of investment appraisal. The returns on capital projects tend to be calculated in relation to myopically stringent discount rates. And this favours investment which introduces labour-saving methods into existing operations rather than innovative projects. It is the "productivity raising" adjustment which shows the higher returns in the heavily-weighted early years.

The pool of unemployed labour is an indication that this process has gone too far. And it would chime in with the conservative philosophy of removing distortions to set it moving in the other direction.

## Letters to the Editor

### Projects upon which public money should be spent

From the Directors-General, Federation of Civil Engineering Contractors and National Federation of Building Trades Employers

Sir,—Robin Pauley's excellent review (March 10) of the serious damage caused to our national infrastructure by capital under-spending in the public sector hits the nail right on the head.

We have been pressing successive Governments — and the Treasury — to introduce more common sense management into the planning of long-term capital projects and to remove some of the short-term con-

straints which encourage capital under-spending. The strength of our case has been recognised, for example, by the recent decision to remove certain cash controls on local authority capital expenditure and to guarantee some capital allocations through to 1984/85.

Much, however, remains to be done, particularly on crucial road, water and other infrastructure projects for which Robin Pauley rightly highlighted the need to allocate extra resources.

The Chancellor's duty and priority in the Budget statement must be to ensure that

the nation's appalling investment record over the years is not continued, by showing his confidence and investing in infrastructure programmes. He can also do more indirectly to encourage private investment with the raising of tax charges put forward in our Budget submissions. These would encourage industrial and commercial building and give the green light to the private house-building industry.

K. R. Cooper, NFBTE, D. V. Gaultier, FCEC, c/o 82 New Cavendish Street, W1.

### British Railway's performance

From Mr R. Harman

Sir,—I enjoyed Hazel Duffy's thoughtful article on British Railways (March 7). But I do not agree, on the evidence of my own experience, that BR has commercial freedom while French and German systems suffer undue interference. Ministers and civil servants in Britain exercise a great deal of control in various ways, ranging from informal advice/direction over various issues to major technical aspects such as the external financing limit and many worthwhile investment projects have spent years being "referred back" to the board by the Department of Transport without a clear decision.

A comprehensive study of European railway management in 1970 by the International Union of Railways showed that BR had much less involvement in related transport businesses than most other European systems. Although the 1920s and 1930s saw the British railway companies transforming themselves into modern conglomerates, developing into dock, shipping, airlines, road haulage, bus and coach operation, and travel agencies, almost all of these activities have been hived off by successive governments — a process which still goes on.

Most of our European neighbours, especially the French and the Dutch, tend to be more pragmatic — state intervention means a clearer framework within which to operate.

If the British Government seriously wants British Rail to operate commercially then it should allow the undertaking total freedom (subject to normal business criteria and to the law) to operate its resources as it wishes. BR could be allowed to resume the direction it was taking half a century ago, closing down loss-making freight and most passenger services, developing more profitable transport lines such as coach operation, and also maximising its trunk network in other ways such as providing a competitive telecommunications grid. I have no doubt it could show useful profits in this fashion: by removing the stigma of unprofitability, considerable improvement in management morale and performance would be achieved rapidly. Whether this approach would contribute usefully towards a national transport policy — if we have one — is quite another matter.

Reg Harman, 67, The Avenue, Bengoe, Hertford

### The Dutch disease

From Mr J. Kremers

Sir,—Professor Odell (March 1) rightly points out that the Netherlands have built up an excellent economic and social infrastructure, which is undoubtedly partly due to Dutch gas revenues. But the gas has had its disadvantages as well as its advantages. The Dutch economy and public finances. Roughly during the past 10 to 15 years, the structure of the Dutch economy has changed drastically. The gigantic shift of weight from the private to the public sector (an important aspect of "the Dutch disease" as known in economics literature) should not be underestimated.

It would be dismal economic planning to determine gas sales on the basis of short-run demand considerations only. A variety of other business-cycle and long-run aspects have to be taken into account as well. During the course of the 1970s the disciplined "structural budgeting policy" was exchanged for something in danger of becoming an uncontrolled process, and this has to a significant extent been caused by the opportunity which gas offered to consecutive Governments to postpone necessary reforms of public finances.

The Government's current deficits are not, as argued by Professor Odell, caused by the fact that gas sales are less than expected. They are caused by the fact that agreement on the deeper problems of the Dutch economy and public finances is coming too late and during a serious recession. It would therefore even today be bad policymaking in step up gas sales, if this was not accompanied by a careful reform of public finances and of the

mechanism of the whole economy.

Of course, a wise use of the natural gas can be a great help in this process of adjustment. Nevertheless, the fact that a self-sufficiency in energy should be used to solve problems, not to create them or to cover them up, represents an important lesson for the Dutch and for any other economy in a similar situation.

Jeroen J. M. Kremers, Nuffield College, Oxford.

### Imperfectly free in various degrees

From The Director, Centre for Decision Making Studies, Tavistock Institute of Human Relations

Sir,—The implosion of Chile's "economic miracle" is beautifully analysed by your Santiago correspondent (March 8) but even he is unbalanced in his use of the Chicago School's favourite terms: "laissez faire" and "free economy." I spent some time in Chile lecturing to managers during 1981 when the miracle was still thought to work.

The economy was not free of government and over half of industry was politically controlled, so was the exchange rate, the unions, the employment statistics etc. Professor Samuelson is quite correct to have called this market "fascism." Economists have long recognised the need to substitute "imperfect" for the 19th century term "perfect competition." So we should now recognise that all modern economies are imperfectly free in various degrees. Japan is an outstanding example of a highly manipulated unfree system from its early government control of quality standards to its current

### Iniquitous practice

From the Chief Executive, Borker, Kline and Partners

Sir,—I follow with interest the continuing general debate on the plight of the early (pension) leaver. I am astounded, however, that one specific area is continually overlooked. Almost daily I am consulted by individuals who are only offered transfer values which represent the aggregate of their own personal contributions, without any allowance for interest earned by the trustees on these contributions during their period of membership.

How in equity can this iniquitous practice continue where the pension fund enjoys a significant financial advantage from a departing member and is, in fact, better off than if the member had never been in membership at all? Surely the time has arrived for this practice to be outlawed by the appropriate authorities. P. G. Barker, 6 Bloomsbury Square, WC1.

# Royal Trust

## A rather special bank in the City

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## Call for change in Soviet planning

By Anthony Robinson in Moscow  
 MR OLEG ANTONOV, the most brilliant and original living Soviet aircraft designer, with a string of successful civil and military aircraft to his credit, has issued his influential voice to demand a radical change in Soviet economic planning methods.

In a lengthy article in the trade union paper, *Trud*, the 77-year-old designer called for an end to the old practice of setting plan targets by such crude and wasteful indices as weight, length, number of units produced or double value.

In their place, he said a whole new series of calibrated quality indices specially tailored to each branch of production should be worked out measuring, for example, the durability of tyres, the accuracy of instruments or the strength of steel.

Decrying the enormous waste of labour, energy and raw materials resulting from traditional planning indices dating from Stalin's time, Mr Antonov quoted the example of two Soviet tyre factories. One produced 100,000 tyres above its 2m plan target and received large production bonuses. The other turned out only 2m tyres and no above-plan bonus was therefore paid. But the tyres of the first plant lasted only 35,000 kms while the second factory made tyres which lasted 40,000 kms.

In total, the tyres produced by the first plant ran for 73.5bn kms while those of the second factory ran for 80bn kms. The first factory, however, used more materials and labour and was rewarded while the second used less, was therefore more profitable to the national economy. It was penalised for its higher quality.

Mr Antonov then referred directly to the experience of his own suppliers. The Zaporozhne aircraft engine factory turned out a new engine which only lasted 400 flying hours, forcing Aeroflot, the Soviet airline, to change engines every three months.

Then the factory worked out a new quality-weighted index with Gosplan, the central planning agency. As a result, the engine's life was extended to 1,000 hours.

This 250 per cent increase in durability was achieved with a mere 30 per cent increase in cost. Subsequent work on the same engine raised its ultimate flying time to 20,000 hours, thanks to the incentives of the new system.

Similar improvements were later made to the engine of the Antonov 24 short-range passenger aircraft, whose original engines flew for only 10,000 hours. These were subsequently upgraded by stages to give a final life of 35,000 hours. This allowed Aeroflot to halve its original orders for the aircraft and save billions of roubles.

But Mr Antonov hinted, such examples were rare, many of his suppliers were still reluctant to improve the quality and delivery times of their products, or introduce new technology.

The economy would continue to lose billions of roubles and produce huge quantities of sub-standard, high-cost products unless a wholesale change of system on these lines were introduced.

Foreign (meaning Western capitalist) companies which lose their markets and go bankrupt if they produce sub-standard products. With us, to our socialist state, it is quite the contrary, he added in what is the most passionate advocacy to date from a leading Soviet industrialist of the demands for economic changes currently espoused by Mr Yuri Andropov.

In a wry footnote to Mr Antonov's outburst, however, the magazine of the Siberian Academy of Sciences announced the death of 84-year-old Professor Evsei Liberman. Prof. Liberman wrote a famous article in *Pravda* entitled "Plan, Profit, Bonus" which first aired the views of reformist economists in public. But that was back in 1962. Plus ça change...

## European shippers try to prevent split with U.S.

By Andrew Fisher, Shipping Correspondent, in London

ATTEMPTS to prevent a threatened split with the U.S. over seaborne trade policy will be made by European shipping officials at a key inter-governmental meeting in London later this month.

At issue is the whole question of free trade in liner shipping on scheduled world cargo routes, now mostly in container ships. Europe and the U.S. disagree on how to meet developing countries' demand for a larger share of this trade.

The fear to the UK and other major European shipping countries such as Norway is that the U.S. may sign further bilateral deals with trading partners in Asia or South America, keeping out lines from third countries.

The UK and Norway gain most of their shipping revenues from cross-trading beyond home ports. The UK's fleet of container ships ac-

counts for just over 10 per cent of the world total.

The background to the London talks on March 22 and 23 is the code of conduct for liner conferences adopted by the United Nations Committee on Trade and Development (Unctad).

This seeks to allot cargoes so lines of importing and exporting countries have 40 per cent each, with 20 per cent reserved for cross-traders. The code does not cover oil or bulk cargoes like grain or iron ore.

It could come into effect around the end of the year, once enough EEC countries have ratified it. The U.S. opposes the code as protectionist and will not ratify it. But Japan, without a large cross-trading fleet, intends to accept the code.

But EEC countries have agreed on a compromise - the Brussels package - which would uphold non-protectionism at the developed countries' end of liner trades. It is this compromise version that they will ratify.

Heading the European side of the talks will be Mr Tony Lane, head of shipping policy at the UK Department of Trade. He will lead the Consultative Shipping Group of EEC and Nordic countries and Japan.

U.S. officials deny that they are about to sign further bilateral deals with countries such as the Philippines or Venezuela. They have such agreements with Argentina and Brazil.

The Philippines, they said, is trying to impose the cargo allocation provisions of the liner code before it comes into effect. Further talks are due soon between the two countries.

## EEC renews efforts to settle farm conflict with Washington

By John Wyles in Brussels

HERR Wilhelm Haferkamp, the EEC External Affairs Commissioner, and Mr Poul Dalsager, the Agriculture Commissioner, will fly to Washington on Thursday to try to breathe life back into efforts to settle the agricultural trade conflict between the EEC and the U.S.

Their mission is to prepare the ground for an eventual meeting in four to six weeks' time between Mr George Shultz, U.S. Secretary of State, and Mr Gerson Thoma, President of the European Commission.

The hope is that by then the two sides may be able to agree on how to manage their agricultural export trade without launching a subsidy war.

Herr Haferkamp and Mr Dalsager will try to strike out in this direction during talks on Thursday and Friday with Mr William Brock, the U.S. Special Trade Representative, and Mr John Block, the Secretary for Agriculture.

They will have before them a joint report prepared by their officials summing up the so-called "technical talks" which were held in Washington and Brussels in January and February.

There are some indications from Washington that, despite bellicose rhetoric and provocative export deals like January's subsidised sale of wheat flour to Egypt, the Reagan Administration is increasingly anxious for a

negotiated settlement.

This should silence growing demands from the Congress for boosting U.S. farm exports by a full-blown subsidy system. Inevitably, this would be a heavy drain on the U.S. budget and a costly challenge to the Community, which would be forced to respond so as to maintain exports.

Meanwhile, EEC Agriculture Ministers begin their annual negotiations today on higher guaranteed price levels for farmers. The Commission has recommended a 5.5 per cent increase "norm" which leads to average rises of less than 4.4 per cent because of proposals raising dairy and cereals prices by between 2.4 per cent and 4 per cent.

## Belgium to reduce its national debt with harsh spending cuts

By Larry Klinger in Brussels

BELGIUM'S Centre-Right coalition Government has agreed on further austerity measures to contain public expenditure and achieve its goal of reducing the national debt as a percentage of gross national product to the EEC average over the next three years.

Mr Wilfried Martens, the Prime Minister, said yesterday that his Cabinet decided during the weekend to reduce public expenditure this year by a further Bfr 40bn (\$640m).

This would mean increasing taxes and social security payments to raise an extra Bfr 11.3bn and cutting back projected state spending by more than Bfr 28bn.

However, additional expenditure of around Bfr 11bn, earmarked for securing national energy supplies, local authority finance and agreed national transfers to regional government would remain untouched.

Speaking during a special televised debate with Mr Karel van der Meer, the opposition Flemish Socialist

leader, Mr Martens made clear that the government coalition of his own centrist Christian Democrats and the conservative Liberals did not plan to deviate from its 18-month-old austerity programme, which is aimed at bolstering the country's export competitiveness and reducing the nation's public debt as a percentage of GNP to the EEC average by 1985.

This is now running at 12.8 per cent against the EEC's average 5 per cent, and officials estimate that Belgian state spending might have to be reduced by a further Bfr 100bn both in 1984 and 1985 if the government's goal is to be achieved.

Mr Martens said that the government's latest measures would be spelt out to parliament on Wednesday, when the government is also expected to seek an extension of its special powers. These powers limit parliamentary debate on specified economic issues such as budgetary matters, bringing the social services into financial equilibrium and

national job creation programmes. Since coming to power following the inconclusive general election at the end of 1981, the government has instituted under its special powers, a range of austerity measures, including a virtual wage freeze and an 8.5 per cent devaluation of the Belgian franc.

While Mr Martens did not explicitly touch on the expected realignment of currencies within the European Monetary System, his remarks were clearly aimed at reassuring the international community that the current pressure against the Belgian currency was unwarranted.

There has been increasing speculation that Belgium might seek a further devaluation if the D-Mark was revalued and the French franc devalued. Mr Martens appeared, however, to be signalling that his government felt that its current economic programme was sufficient to secure the future position of the Belgian currency.

## Israel-Egypt trade talks

By Charles Richards in Cairo

TALKS began outside Cairo today between Egypt and Israel on the re-establishment of normal trade and commercial relations, as stipulated in annex III of their 1979 peace treaty.

Egypt agreed to resume talks, which had been cut off because of Israel's invasion of Lebanon, as a quid pro quo for the resumption of talks ten days ago on the disputed area of Tabat.

The Israelis regard the two sets of talks under the heading of bilateral relations. For Egypt, they are distinct, and the Tabat issue a matter of sovereignty.

Israeli officials have complained that not only has Egypt failed to ful-

fil its obligations under the terms of the peace accord to remove all discriminatory barriers to normal economic relations, but that over the past ten months it has reversed the process.

Specifically, Israel says that import licences are no longer being issued for Israeli goods, and that the local bank authorities deal with Israel, the Suez Canal Bank, is no longer issuing letters of credit.

Egyptian officials maintain that restrictions have been placed on the import of fruit, vegetables and dairy products, as well as luxury items, no matter the country of origin.

Shultz urges Jordan over plan, Page 2

## UK budget to offer £2bn in tax benefits

Continued from Page 1

ling. However, falling oil prices and the weak state of the world economy will work the other way, and Sir Geoffrey is likely to predict an inflation rate of about 8 per cent by the end of the year.

The Treasury is also expecting that weaker oil prices will boost output in the UK and the rest of the world, and it will probably predict a growth rate of 2 per cent for the UK in 1983, compared with last year.

The Chancellor has been under strong pressure from the Prime Minister and some Tory MPs to raise the ceiling for tax relief on mortgage interest from its present £25,000, a figure which has been unchanged since 1974 when it was introduced by the Labour Government. He may raise it to £35,000, although the Treasury has strongly resisted the move.

Sir Geoffrey's measures are certain to be attacked by the opposition parties for failing to promise any significant improvement in the economy or a halt to the rise in unemployment. Mr Peter Shore, shadow chancellor, has already pointed out that any tax cuts will still leave the tax burden for the average family well above the level before the 1979 general election.

The main issue within the Tory party has been the priority of relief for industry and for the ordinary taxpayer.

## IEA sees hard summer for Opec

By Ray Daffer, Energy Editor, in London

THE ORGANISATION of Petroleum Exporting Countries' battle for markets and pricing stability will become even tougher over the next six months, to judge from the latest oil industry forecasts of the International Energy Agency (IEA).

The projections show that non-Communist world demand for oil - already at a very low level - will fall even further in tune with seasonal needs during the spring and summer months.

Opec has been finding it difficult to win customers in the present January-March quarter during which, according to the IEA, oil demand has been running at 46m b/d. Demand is expected to fall to only 42.8m b/d in the second quarter, and 43.4m b/d in the July-September period.

The squeeze on Opec becomes even more apparent when supply factors are taken into consideration. The Paris-based agency, which represents most of the governments of the industrialised world, points out that:

Supplies from non-Opec countries, including those in the Communist bloc, will continue to rise throughout this year, from 24.8m b/d in the first quarter to 25.6m b/d in the final quarter. As a result, non-Opec supplies for this year as a whole (25.1m b/d) should be 3.3 per cent up on last year and 16.2 per cent higher than in 1979.

The oil industry has still plenty of stocks on which it can draw over the coming months. The agency estimates that land-based stocks held in its 21 member-countries at the end of this month (March) should total the equivalent of 397m tonnes of crude oil, 102 days of forward supplies. In 1979, IEA countries held 83 days of stocks, although these inventories have grown to 98 days in 1980 and 101 days in 1981 and 1982.

Oil companies which have been drawing down stocks at a higher rate than average in the first quarter say they will be encouraged to carry on the destocking process if there continue to be signs that oil will become cheaper still.

The IEA report shows that Opec's crude oil production fell to 14.8m b/d in February, giving a first-quarter average of 15.8m b/d - about half the level of Opec output in 1979.

The agency gives no forecast of Opec production levels for the rest of the year. But it does provide figures showing that in the past two years demand for Opec's crude oil during the second and third quarters has fallen between 9 per cent and 12 per cent below the levels of the first quarter.

On this basis, Opec will this summer have to cut its production to considerably below its chosen ceiling of 17.5m b/d if it is to fulfil its aim of returning the oil market to a balanced position.

Given that world-wide oil demand is expected to rise appreciably in the final October-December period, there is evidence that world-wide demand for Opec oil could average 17.5m b/d over 1983 as a whole. Much will depend on stock levels and Opec's ability to stabilise prices.

As the full gathering in London of all 13 members went into its seventh day yesterday there was no immediately apparent shift or concession allowing minimum, rock-bottom requirements of all members to be accommodated with the 17.5m b/d ceiling.

Venezuela is insistent on a quota ceiling of no less than 1.6m b/d rather than the 1.6m b/d which most other members have tried to assign to it under various proposals discussed.

Sr. Humberto Calderon Berti, Minister of Energy and Mines, has argued that Venezuela even at 1.6m b/d, would be reducing output from the 2m b/d sustained for a few months up until the end of February, when all members' output fell drastically as purchasers delayed in anticipation of a general price cut.

All others have been pumping at a rate below allocations proposed for them, Venezuela asserts.

Up until last night's meeting of ministers, the United Arab Emirates had shown no flexibility in its demand for 1.45m b/d in the short-lived production programme adopted a year ago.

The increase sought mainly to cover production of Dubai and Sharjah currently running at more than 400,000 b/d.

## THE LEX COLUMN

# Budget priorities for Britain's Chancellor

Sir Geoffrey Howe's pre-election budget tomorrow has been radically affected in the planning stages by the turmoil in the international markets - notably in the slump in the price of crude oil and the associated weakness of sterling.

The Opec oil ministers were still locked in negotiation in London last night, which at the very least ensures that Sir Geoffrey's speech will be unusually hot from the press - certainly in the oil-related paragraphs. He will be very much aware that any substantial unplanned slump in the oil price in the next year - to below \$25, say - could cost as much in revenues as the various tax concessions which he is generally expected to put forward.

These net tax cuts, which are likely to be concentrated on personal income tax, are expected to be in the region of £2bn.

The vulnerability of sterling will force the Chancellor to take a cautious view. In the past few days the pound has not had too rough a ride, but this may have been partly because the foreign exchange markets have been preoccupied with the problems within the European Monetary System. Yet the strains imposed on the EMS by the tensions between the D-Mark and the French franc may not divert attention for many more weeks.

Electoral Sir Geoffrey would no doubt like to be more generous in his concessions, but greater priority attaches to inflation and interest rates. Last year's strategy was to encourage the two to fall roughly in parallel, but the pattern decisively broke down in November. This year there is a little margin for error on inflation, which is likely to bottom out to the April or May calculation at 4 per cent or even less. It will be no disaster if the rate edges ahead again during the summer and autumn, and indeed it seems bound to do so. But another rise in clearing-bank base rates, which this time would soon be reflected in building society mortgage rates, would be more damaging.

So the City of London is relying on the Chancellor to bolster confidence by sticking very closely to the terms of his medium-term financial strategy, which for 1983-84 implies a projected public-sector borrowing requirement of around £8bn, together with some modest shading of the monetary growth target range - perhaps to 6-10 per cent for sterling M3.

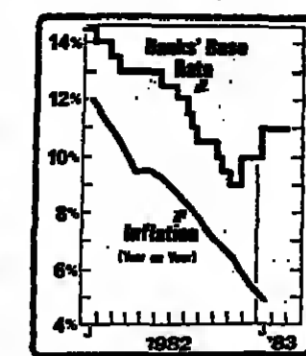
Anything much more cautious than this, however, might prove counterproductive, for the City's financial markets are for the time being primarily interested in the re-election of the Tory Government, and are only on a rather longer view concerned with the prudence of Sir Geoffrey's policies.

Thus the City will go along with a raising of the mortgage interest rate ceiling on the basis that it could be a vote-winner, even though the stimulation of demand for housing finance at present seems unnecessary and even unwise.

Although in overall terms the budget may look rather dull, the Chancellor could well have something to say about a number of detailed issues. Most pressing, perhaps, is the question of how the oil tax regime should be adapted to the new circumstances of a weak oil price and a rapid slowdown in the development of the North Sea.

The London financial futures market will be hoping for measures to remove the tax problems which have inhibited pension funds and life offices from trading on any scale; and corporate treasurers will be looking for changes to the corporate bond tax regime. Action is promised, too, on the offshore tax avoidance front.

Such measures could keep the specialists busy. But with the Chancellor being pulled strongly by electoral forces, and at the same time being buffeted by the oil price, it is unlikely to be a vintage year for rigorous economic analysis.



accounting (CCA) figures. But allowing the consideration of improved historic cost interim to be swept aside by the general dissatisfaction with CCA - the Stock Exchange withdrew its requirement in December - looks like a bad case of throwing the baby out with the bath water.

Share prices react just as vigorously to interim reports as to the preliminary announcement of final results. Yet interim reports are subject to no accounting guidelines, no generally accepted accounting principles and no auditing requirements. The lack of any formal auditing role has been highly conspicuous on a few occasions - most notably, perhaps, when in 1973 London and County Securities produced terminal interim figures which the Department of Trade later described as having been a travesty of the facts. But it is the mundane problems arising from inadequate and inconsistent reports which provoke the most comment from analysts and brokers: divisional earnings at the interim and final stages given on a different basis, for example, or the omission of the most basic balance-sheet facts from the interim reports as well as any detailed financial notes.

Britain's accounting profession will have to take stock sooner or later of the implications of demanding fuller interim reports; if for no other reason than a need to comply with yet another EEC draft directive, now under final review. The study collecting dust in the ICA is long on academic provisos and painstaking analysis of some less than burning issues. But it does usefully identify the main problems which would require arbitration by the profession and which were to have been the subject of an Accounting Standards Committee project, now suspended.

Unfortunately, among the questions arising from the adoption of such items as an abbreviated balance sheet and sources and uses of funds statement, there lurks another less straightforward question about the whole choice between interim and final accounts, which is a snapshot view of a company's affairs - the "discrete" approach in line with current practice - and interim figures which would aspire to an "integral" approach, smoothing out seasonal or discretionary fluctuations in income and posing awkward accrual decisions.

The scope for accounting artistry opened up by fuller interims of either persuasion is amply suggested by the pattern of many U.S. companies' quarters.

## Interim reports

Britain's Institute of Chartered Accountants (ICA) appears to have shelved a recently submitted study on the role of interim company accounts and the case for expanding them. The study had the misfortune to appear late last year, just as the Stock Exchange was coming to terms with the feeble impact of its June edict requiring interim accounts to carry current-cost

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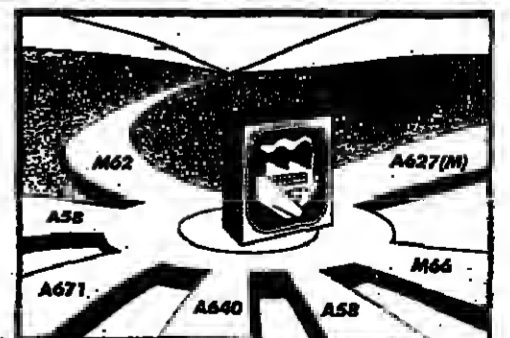
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# SECTION II - COMPANIES AND MARKETS FINANCIAL TIMES

Monday March 14 1983



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## INTERNATIONAL BONDS

### Nervousness keeps retail investors on the sidelines

BY MARY ANN SIEGHART IN LONDON

THAT FAMILIAR morning-after feeling hit the Eurodollar bond market at the beginning of last week, and the hangover was still in evidence on Friday. Yet again the market was flooded with unwanted new issues, most of which were being quoted at discounts of about 3 points.

The flop of the week must have been the Bank of America issue. Initially, it was to come in two tranches: \$200m immediately and a further \$100m later in the year. Priced at 93%, it carried a coupon of 8 per cent, with warrants to buy more bonds of the same series at a price of 95.

In order to give the right sort of yield to investors, co-managers would have had to sell the bonds without their warrants at about 90%. This would give a yield to maturity of 10.81 per cent - possibly a little tight for an AA+ rated bank, but acceptable nonetheless.

The co-managers could buy the bonds at a discount of 1 1/4 points, and this meant they would have to be able to sell the warrants at 1 1/4 points, or \$17.50 each, in order to break even. During the week, however, the warrants did not fetch more than \$7.

Many banks - including some that are former lead-managers of B of A issues - turned down the offer of co-management. Of the major London houses, only Goldman Sachs and Salomon Brothers eventually joined, probably for political rather than economic reasons.

But from Bank of America's point of view, the deal was not such a flop. Bank of America International was leading the bond on its own, and although it may have lost some money on it, the parent bank raised finance on relatively cheap terms. So the net cost of the deal was low. This must have been some consolation to the co-management team,

who were still trying on Friday to shift the bonds at a discount of more than 3 points with little or no success.

But Bank of America did admit a partial defeat on Tuesday when it reduced its first tranche from \$200m to \$150m. Still the bonds did not sell.

This deal was not alone in being shunned by investors. All of last week's new issues traded badly - American Express was offered at a discount of about 3 points, and Honeywell at about 2 1/2.

Retail investors stayed on the sidelines, mainly from uncertainty about where the market was heading. They were given a jolt on Tuesday, when Mr Paul Volcker, U.S. Federal Reserve Board chairman, moved to dampen expectations of lower interest rates. Having been reasonably relaxed about the money supply and inflation over the last six months or so, he implied last week that rates might have to rise if the money supply got out of hand.

This gave Friday's market a very nervous feel in advance of the latest money supply figures. In addition, the six month Eurodollar rate, which had been drifting downwards, rose 1/4 point last week to close at 9 1/4 per cent.

Another factor causing worry was the imminence of the U.S. Treasury auctions, due to start on March 14. If there is not enough buying interest, higher rates may have to be used as a sweetener.

Finally, of course, there is still a lot of unsold paper around, which puts off both borrowers and investors. It there is oversupply in an issue, the price is unlikely to rise, so retail investors will not be keen to buy it, even at a hefty discount.

Primary market prices fell by about 2 points over the week, and seasoned issues lost around 1 1/2 points.

## BANKERS LIKELY TO CONSIDER FOUR-POINT SALVAGE PACKAGE

### Chile to open negotiations on debt rescue plans

BY PETER MONTAGNON, EUROMARKETS CORRESPONDENT, IN LONDON

CHILE is to meet its international bankers this week for the first round of serious negotiations on its debt rescue proposals. These are slowly taking shape after extensive talks among the 12-bank advisory group of leading creditor banks.

Details of this package are still rather sketchy, but what now seems likely to emerge is a four-point scheme rather similar to that undertaken by Brazil. This would mean:

- The refinancing of some \$2.5bn in debt maturing this year and next;
- New commercial bank loans of about \$1.2bn - higher than the \$900m previously estimated because of capital outflows during January;
- Maintenance of short-term trade credits at a specific, but as yet undefined, level; and
- Restoration of interbank lines to Chilean banks to their level as of the end of December.

The decision to tackle Chile's li-

quidity problems through the inter-bank market is likely to come as something of a surprise after the difficulties Brazil experienced in restoring its interbank lines.

Chilean bankers say, however, that there is a major difference to that Brazil was seeking to restore loans to their level of last June. This was a much harder task than Chile's current problems because the reference date is closer to the present day.

In any case, bankers close to the advisory group, which is chaired by Manufacturers Hanover, say that the atmosphere on Chile's debt negotiations has improved considerably in recent weeks.

Chile is understood to have made a commitment that Banco de Estado, its state bank, which acts as banker to the government, will assume responsibility for the foreign debt of all private sector financial and industrial companies which are officially classified as viable.

This falls short of a formal guarantee, but still implies considerable state backing for the debts of the private sector which makes up the major part of Chile's \$17bn foreign debt.

Sr Carlos Caceres, Chile's new Finance Minister, has also appointed a permanent negotiating team to spearhead talks with the banks. It is headed by Sr Tomas Müller, formerly vice-chairman of the Banco de Chile, an experienced banker who is expected to lead the talks with international bank creditors on Friday.

But not all the news on the re-scheduling front is good. As already reported, Yugoslavia raised several initial objections to the \$2bn package offered to it last week by commercial banks, and it is becoming increasingly apparent that Mexico and Brazil will have to return to the banks for more money this year.

Lower oil prices are threatening to undermine Mexico's financial

calculations, while Brazil's trade performance in the first two months appears incompatible with its target of a \$8bn surplus this year.

The big question is how willing commercial banks will be to provide extra loans. Some leading bankers feel there is a limit to the degree to which banks can be indefinitely coerced by the IMF into writing cheques for countries which are unable to pay off their existing debts, and that this limit is close to being reached.

Even the \$3bn loan recently arranged for Mexico was completed only after tremendous struggle. To speed up the process it was topped up by an extra \$150m from lenders already committed.

True, topping up the loan by this amount did not reflect a serious undershooting of the \$3bn target. It was not so much the result of a blanket refusal by banks to lend, as the need to sort out technical prob-

lems on, for example, the precise amount to be contributed by some individual institutions.

As these problems are ironed out, more firm commitments to the loan are still flowing in, but the situation serves as a salutary reminder that the IMF cannot automatically turn on the taps for a country in trouble.

Elsewhere, a major test of the syndicated credit market is now looming in southern Europe where a margin of 1/4 per cent over seven years was formally set on Greece's forthcoming loan last week.

Greece has not exactly been swamped with lead managers for this deal, but this is thought to be partly because some banks are unwilling to take on an underwriting commitment as high as \$50m in the present uncertain market. More of these banks could join at second tier manager level.

Portugal's efforts to raise \$400m pose rather more serious problems. Portugal, which has very substan-

tial gold reserves of some 22m ounces, is accustomed to living off a thin cushion of foreign exchange reserves. It has had to come to the market for this big loan even though the timing is inappropriate - ahead of the elections on April 25.

The response from potential lead managers has so far been very sluggish and, as a result, Portuguese officials last week indicated they were considering refining the terms offered.

Sr Walter Marques, state secretary of the Portuguese Treasury, said the margin over prime rate could eventually be as high as 0.45 per cent instead of the 0.3 per cent originally proposed.

Banks have been asked to reply to invitations to lead this credit by the end of this week, and only then will it be possible to assess the real response.

Eurobond quotations and yields, Pages 17-22; International Capital Markets Survey, Section III

## CURRENT INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Lead Manager	Offer yield %	Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Lead Manager	Offer yield %
U.S. DOLLARS								Tokoku Electric	100	1993	-	6	100	UBS	6.000
East Germany	50	1990	7	11 1/2	98 1/2	CSFB	11.600	Daiwa Danchi	35	1988	-	4	100	UBS	4.000
Finland	50	1990	6	11 1/2	100	SG Warburg, Nikko Secs.	11.500	New Zealand	200	1988	-	5 1/4	100	UBS	5.250
France	100	1990	15	8 1/4	100	Daiwa, Morgan Stanley	5.750	Osaka	50	1988	-	4 1/4	100	UBS	4.250
Germany	250	1990	5	8	93 1/4	IK, of America Ind.	9.667	Chrysler	100	1988	-	3 1/4	100	SBC	-
Italy	100	1988	5	-	100	Morgan Guaranty	-	Air Canada	100	1995	-	5 1/4	98 1/4	SBC	5.550
Japan	75	1991	8	11	100	Morgan Stanley, Salomon Bros., Rabobank	11.000	Santander	28	1988	-	6	100	Bank Lau	6.000
Spain	100	1990	7	10 1/4	100	SG Warburg, Morgan Stanley	10.750	Zenith	30	1988	-	6	100	Swiss Volksbank	6.000
Sweden	150	1990	7	11 1/4	99 1/4	Lehman Bros., Kuhn Loeb	11.350	Mitsubishi	20	1988	-	5 1/4	100	Swiss Volksbank	5.875
Switzerland	75	1990	7	5 1/4	100	European Banking, CSFB, Deutsche Bank	-	Sumitomo	20	1988	-	6	100	SBC	6.000
CANADIAN DOLLARS								Stanley Electric	40	1988	-	3 1/4	100	UBS	-
Montreal Transit Commission	28	1990	7	12 1/2	100	Bqun. Int'l. & Lux.	12.500	Carlsberg-Tuborg	60	1995	-	-	-	UBS	5.750
D-MARKS								Sanyo Electric	100	1993	-	-	-	CS	-
Korean Devt. Bank	100	1998	7	8 1/4	99 1/4	Deutsche Bank	8.396	AUSTRIAN SCHILLINGS							
Nippon Credit Bank	100	1991	8	7 1/4	100	West LB	7.250	Asian Devt. Bank	500	1993	18	8 1/4	99.4	Creditanstalt-Bank.	0.341
Wachovia	200	1990	7	7 1/4	99 1/4	Boy, Vorwerk, Deutsche Bank	7.894	ECIE							
Wells Fargo	100	-	-	-	-	West LB	-	Exxon	50	1993	8	11 1/4	-	Soc. Gen. de Bqun., Kreditbank, BBL	-
SWISS FRANCS								YEN							
Nissan Motor	100	1993	-	3 1/4	100	SBC	3.500	New Zealand	150m	1988	8 1/2	7 1/4	100	Daiwa Secs.	7.625
Mitsubishi	100	1988	-	3 1/4	100	SBC	3.500	Ferrovie dello Stato	50m	1993	8	8.6	98.85	RIJ, Daiwa Secs.	8.981
								Bank Int. Devt. Bk.	50m	1993	9	8.6	99.5	Nomura Secs.	8.864
								Indust. Bank	150m	1993	9	8.5	98.5	Daiwa Secs.	8.750

\* Not yet priced. \*\* Final terms. \*\*\* Placement. † Floating rate note. ‡ Minimum. § Convertible. ¶ With warrants. †† Registered with U.S. Securities and Exchange Commission. Note: Yields are calculated on ARB basis.

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February 22, 1983

## INTERNATIONAL CAPITAL MARKETS AND COMPANIES

## Short-term rates increase as uncertainties return

THE U.S. credit markets took something of a beating last week as renewed short-term uncertainties overwhelmed underlying positive factors.

Short-term rates increased by up to 25 basis points while bond prices staged their sharpest retreat for two months. Treasury issues fell by between 1 of a point to 2.5 points with the Treasury long bond dropping to 96 1/2 to 10.72 per cent.

Behind the renewed market nervousness was concern about the flood of new Treasury debt about to descend upon the market and fears—probably unjustified—about the implications of a surge in the monetary aggregates to the corporate markets. Moody's decision to strip American Telephone and Telegraph (AT&T), and most of its operating subsidiaries of their prized triple-A rating, hit prices.

Institutional demand all but dried up in the face of another

will also be higher. The \$26.5bn surge in the broadest money measure, M3, a 13 per cent annualised increase, was also higher than expected. M3 is now more than \$4bn above target.

Nevertheless, although the numbers are large the actual overshoot in percentage terms is still tiny. While some in the markets view the increases as limiting the Fed's flexibility, and therefore effectively ruling out any early further easing in the credit policy, the Fed is also unlikely to tighten.

A further decline in oil prices will reduce inflationary fears. In addition the U.S. economic recovery is still very weak, as the latest retail sales figures showed, and international liquidity concerns remain.

Moody's decision to strip almost all the Bell System bonds' ratings was unwelcome. The decision, which surprised some in the credit markets, angered AT&T, is contained in a 90-page report and was prompted by concern over the implications of the breakup of the Bell System to the line with the settlement of the Justice Department's anti-trust case.

The immediate trigger for the decision was the expectation of a new Bell System issue. Plans for the issue, \$250m of debt securities by South Central Bell Telephone, were announced on Friday.

South Central's credit rating dropped four notches to single-A while the parent, and some of its strongest subsidiaries, dropped from triple-A to double-A.

Standard and Poor's, another major U.S. rating agency, has still to decide whether to match the move. However, the decision has already added to Bell System borrowing costs. After the announcement AT&T bonds fell by up to two points.

AT&T long-term debt currently stands at about \$47bn, or about 10 per cent of the long-term corporate debt market, and is widely held by institutions, pension funds and individuals.

In recognition of the renewed uncertainties in the market, new issue volume slipped to under \$1bn for the first time in three weeks.

Paul Taylor

## European Banking Group resignations

By Alan Friedman, Banking Correspondent

TWO EXECUTIVE members of the board of European Banking Group have resigned in order to pursue private business interests. European Banking Group is the consortium bank owned by seven European institutions including Deutsche Bank and Midland Bank.

Mr. Neil Balfour, who is a member of the European Parliament for Yorkshire North, is resigning from the board in order to devote more of his time to his political career.

He will also collaborate on a part-time basis with Mr. Nigel Keen, who is resigning to form his own financial services company. Mr. Keen was the board member in charge of the bank's corporate finance business.

## INTERNATIONAL APPOINTMENTS

## Entertainment

## president for

## Coca-Cola

THE COCA-COLA COMPANY has elected Mr. Francis T. Vincent Jr. as its new president.

Mr. Vincent has also been named president of the newly-created entertainment business sector of the company. At the same time, Mr. Vincent has been elevated from president to chairman of Columbia Pictures Industries, Inc. and continues as chief executive officer of The Coca-Cola Company's subsidiary.

He will continue to report to Mr. Donald R. Keough, president and chief operating officer of The Coca-Cola Company. Mr. Vincent has succeeded Mr. Vincent as president and chief operating officer of Columbia Pictures Industries, Inc. and continues as chief executive officer of The Coca-Cola Company's subsidiary.

Mr. Vincent will be responsible for the company's principal business, the motion picture industry, as well as all of Columbia's financial, legal and administrative activities.

Mr. Michael J. Favier has been appointed to the newly created position of director—fiscal management—international programs. Mr. Favier is currently in charge of the Aircraft Company division of McDonnell Douglas Corporation. Mr. Favier is

## Restructuring at Sun Hung Kai

BY ROBERT COTTRELL IN HONG KONG

SUN HUNG KAI Securities and Sun Hung Kai Bank, the twin Hong Kong financial companies controlled by Mr. Fung King Hei, have announced a group restructuring involving minority shareholders Merrill Lynch, the U.S. financial services firm, and Paribas, the French investment bank.

In a related deal, Mr. Fung is to sell a block of Merrill Lynch shares currently worth about \$1.566m. The news coincides with the publication of the two Hong Kong companies' 1982 results, which show SHK Securities registering a turnaround into attributable loss, and profits at SHK Bank halved.

SHK Securities, which is Hong Kong's largest stockbrokerage house, and SHK Bank, are both quoted commercial banks. The proposed reorganisation, to be effected by a scheme of arrangement, both companies will become wholly-owned subsidiaries of a new holding company, to be called Sun Hung Kai and Company. The move is seen locally as a

tightening-up operation, which will consolidate Merrill's and Paribas' previously split positions.

Paribas (Compagnie Financière de Paris et de Pays-Bas) has been a shareholder in SHK since 1978, acquiring 25 per cent of SHK Securities and 15 per cent of SHK Bank. Merrill

bought most of its shares from Mr. Fung, who emerged from the deal holding convertible debentures worth 4 per cent of the U.S. group's equity, making him its largest known shareholder. As part of the same deal, Merrill Lynch bought 25 per cent of SHK Bank and 10 per cent of SHK Securities.

The intended major shareholdings in the new SHK and SHK Bank will be approximately: Mr. Fung 40 per cent; Merrill Lynch 20 per cent; and Paribas 20 per cent.

The amalgamation is being calculated on the provisional basis that one share in the new holding company will be issued for every one SHK Bank share

held, and for every 1.55 SHK Securities shares held. On this basis, SHK Bank shareholders would emerge with 52 per cent of SHK and Company and SHK Securities with 48 per cent.

Overall, Merrill's stake remains stable, while Paribas' investment is increased.

At Friday's closing market prices, SHK Securities was capitalised at HK\$260m (U.S.\$83.5m) and SHK Bank at HK\$135m. The closing prices were HK\$2.52 for SHK Securities and HK\$2.35 for SHK Bank—compare with agreed prices of HK\$5.15 for SHK Securities and HK\$5.20 for SHK Bank as the basis on which Merrill Lynch bought into the group ten months ago.

The reorganisation at Sun Hung Kai also involves quoted property group Sun King Fung Development, which at year-end 1981 was a 51.4 per cent owned subsidiary of SHK Securities.

As part of the May 1982 re-shuffle, a partial distribution of SHK shares was made to SHK shareholders, reducing it to an associate of

SHK Securities. Under the newly announced restructuring, Mr. Fung will personally acquire SHK Securities' remaining 46.6 per cent stake in SHK, in exchange for his stake of 13.34 per cent in Televisio Broadcasts (TVB), a privately owned local television station. As a result, SHK Securities' stake in TVB will be raised to 28.34 per cent, while Mr. Fung will own 54 per cent of SHK.

Mr. Fung, Merrill and Paribas have agreed, as part of the series of transactions, to provide long-term funding of HK\$300m to SHK, which announced on Saturday a loss after tax of HK\$48m, including provisions in respect of a New Territories marina project.

The 1982 results announced by SHK Securities at the week-end showed an attributable loss of HK\$186.8m. The final dividend was passed, SHK Bank reported profits after tax and transfers to inner reserves of HK\$35.15m against the previous year's HK\$70.41m.

## Shake-up continues at Gulf &amp; Western

By Our Financial Staff

GULF & WESTERN Industries, the diversified U.S. company with interests including Paramount Pictures, consumer and industrial products, announced several new group presidents and a new chief financial officer as part of its reorganisation programme.

The announcement follows the resignation at the end of last week of Mr. David J. Spiegel, president of Gulf & Western named Mr. Barry Diller as president of the leisure time group, Mr. Reece A. Overcash Jr. as president of the financial services group, and Mr. James I. Spigel as president of a restructured consumer and industrial products group.

The board also elected Mr. Michael J. Hope, formerly a partner of Ernst and Young, an executive vice president and chief financial officer.

Mr. Hope, 42, joined Gulf & Western in 1972, most recently as general manager of the centre's Digital Products Group.

Heat Transfer Systems, a part of the Lummus Company, has made the following appointments: Mr. J. M. O'Donnell, Jr. has been promoted to vice-president and deputy general manager. Mr. A. J. Van Gennep has been appointed vice-president of operations. Mr. O'Donnell will continue his responsibility for technology and training in addition to overall management assignments.

Mr. O'Donnell joined Lummus in 1964 and has served in a variety of engineering and management positions, most recently as vice-president of operations and technology.

Mr. Gennep was director of European operations for Heat Transfer Systems, having also served earlier as manager of its engineering centre in The Hague.

Mr. E. Whitehead Elmore has been elected a vice-president of ETHYL CORPORATION. He will continue to serve as secretary and general counsel of the company.

Mr. Valentin Pigeat, vice-chairman, has been named chairman and managing director of BAUME ET MERCIER, Geneva.

CIGNA CORP. has made Mr. James G. Stewart chief financial officer and chief executive officer, succeeding Mr. Wilson M. Taylor who has become head of Cigna's property and casualty group. Mr. Stewart was chief financial officer for Cigna's employee benefit and financial services group.

KEY BANKS INC. has elected Mr. Robert W. Boechard senior vice-president and director of planning administration. He was acting commissioner, New York State Department of Taxation and Finance, and president of the New York State Tax Commission. He was formerly Treasurer of the State of New York.

THE LUMMUS COMPANY has appointed Mr. Maxwell Aggar as vice-president of its Digital Technology Centre. Lummus is a unit of Combustion Engineering, Inc. Mr. Aggar has served Lummus in a number of computer control assignments since joining the company in 1972, most recently as general manager of the centre's Digital Products Group.

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## FT INTERNATIONAL BOND SERVICE

U.S. DOLLAR	Issued	Bid	Offer	Change on week	Yield
STRAIGHTS					
Amer. Gov. 147 88	100	105 1/2	106 1/2	+0.11	11.76
BHP Finance 147 88	100	105 1/2	106 1/2	+0.11	11.76
British Col. 147 88	100	105 1/2	106 1/2	+0.11	11.76
Canada 147 88	100	105 1/2	106 1/2	+0.11	11.76
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Canada 147 88	100	105 1/2	106 1/2	+0.11	11.76
Canada 147 88	100	105 1/2	106 1/2	+0.11	11.76

YEN STRAIGHTS	Issued	Bid	Offer	Change on week	Yield
Australia 87 82	100	105 1/2	106 1/2	+0.11	11.76
BHP Finance 147 88	100	105 1/2	106 1/2	+0.11	11.76
British Col. 147 88	100	105 1/2	106 1/2	+0.11	11.76
Canada 147 88	100	105 1/2	106 1/2	+0.11	11.76
Canada 147 88	100	105 1/2	106 1/2	+0.11	11.76
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Canada 147 88	100	105 1/2	106 1/2	+0.11	11.76
Canada 147 88	100	105 1/2	106 1/2	+0.11	11.76
Canada 147 88	100	105 1/2	106 1/2	+0.11	11.76

EUROBOND TURNOVER	Issued	Bid	Offer	Change on week	Yield
Australia 87 82	100	105 1/2	106 1/2	+0.11	11.76
BHP Finance 147 88	100	105 1/2	106 1/2	+0.11	11.76
British Col. 147 88	100	105 1/2	106 1/2	+0.11	11.76
Canada 147 88	100	105 1/2	106 1/2	+0.11	11.76
Canada 147 88	100	105 1/2	106 1/2	+0.11	11.76
Canada 147 88	100	105 1/2	106 1/2	+0.11	11.76
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Canada 147 88	100	105 1/2	106 1/2	+0.11	11.76
Canada 147 88	100	105 1/2	106 1/2	+0.11	11.76

New Issue

7%<sup>3</sup>/<sub>8</sub>

STRAIGHT BONDS	Issued	Bid	Offer	Change on week	Yield
Australia 87 82	100	105 1/2	106 1/2	+0.11	11.76
BHP Finance 147 88	100	105 1/2	106 1/2	+0.11	11.76
British Col. 147 88	100	105 1/2	106 1/2	+0.11	11.76
Canada 147 88	100	105 1/2	106 1/2	+0.11	11.76
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Canada 147 88	100	105 1/2	106 1/2	+0.11	11.76
Canada 147 88	100	105 1/2	106 1/2	+0.11	11.76

FLOATING RATE	Issued	Bid	Offer	Change on week	Yield
Australia 87 82	100	105 1/2	106 1/2	+0.11	11.76
BHP Finance 147 88	100	105 1/2	106 1/2	+0.11	11.76
British Col. 147 88	100	105 1/2	106 1/2	+0.11	11.76
Canada 147 88	100	105 1/2	106 1/2	+0.11	11.76
Canada 147 88	100	105 1/2	106 1/2	+0.11	11.76
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Canada 147 88	100	105 1/2	106 1/2	+0.11	11.76
Canada 147 88	100	105 1/2	106 1/2	+0.11	11.76
Canada 147 88	100	105 1/2	106 1/2	+0.11	11.76

CONVERTIBLE	Cw. price	Bid	Offer	Change on week	Yield
Australia 87 82	100	105 1/2	106 1/2	+0.11	11.76
BHP Finance 147 88	100	105 1/2	106 1/2	+0.11	11.76
British Col. 147 88	100	105 1/2	106 1/2	+0.11	11.76
Canada 147 88	100	105 1/2	106 1/2	+0.11	11.76
Canada 147 88	100	105 1/2	106 1/2	+0.11	11.76
Canada 147 88	100	105 1/2	106 1/2	+0.11	11.76
Canada 147 88	100	105 1/2	106 1/2	+0.11	11.76
Canada 147 88	100	105 1/2	106 1/2	+0.11	11.76
Canada 147 88	100	105 1/2	106 1/2	+0.11	11.76
Canada 147 88	100	105 1/2	106 1/2	+0.11	11.76

U.S. DOLLAR	Issued	Bid	Offer	Change on week	Yield
STRAIGHTS					
Amer. Gov. 147 88	100	105 1/2	106 1/2	+0.11	11.76
BHP Finance 147 88	100	105 1/2	106 1/2	+0.11	11.76
British Col. 147 88	100	105 1/2	106 1/2	+0.11	11.76
Canada 147 88	100	105 1/2	106 1/2	+0.11	11.76
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Canada 147 88	100	105 1/2	106 1/2	+0.11	11.76
Canada 147 88	100	105 1/2	106 1/2	+0.11	11.76

FLOATIO RATE		Speed				
NOTES		Ald	Offer	Chge	Cpn	Cyld
8% of Tokyo 5% BI (1) 01	00	100	100	100/17	94	9.73
BPCE 5% 80	01	98 1/2	99	20/18	94	9.73
Canada 5% 80	01	98 1/2	99	27/17	94	9.87
Canada Nat. Tail. 3% 80	01	98 1/2	99 1/2	24/14	10.56	10.86
CEBRP 5% 82	01	98 1/2	99	20/18	94	9.73
CEBRP 5% 82	01	100	100	20/18	94	9.73
Credit Agricole 5% 87...	01	99	99 1/2	24/12	12.27	12.27
Credit Agricole 5% 87...	01	99	99 1/2	24/12	12.27	12.27
Credit Lyonnais 5% 87	01	99	99 1/2	14/11	12.19	12.19
Credit Lyonnais 5% 84	01	98 1/2	99 1/2	5/7	94	9.86
Credit Nat. 5% 84	01	98 1/2	99 1/2	8/5	10.00	10.00
EDF 5% 89 NW	01	99 1/2	99 1/2	10/8	10	10.04
Edwards 5% 89	01	99 1/2	99 1/2	10/8	10	10.04
Uoyes Europe 5% 81	01	98 1/2	99	20/18	94	9.73
Long Term Corp 5% 82	01	100	100	23/14	10.56	10.56
Long Term Corp 5% 82	01	100	100	23/14	10.56	10.56
Nat. West. Fin. 5% 81	01	100	100	15/7	10	10.11
Nat. West. Fin. 5% 81	01	100	100	15/7	10	10.11
NZ Steel Dev. 5% 82	01	100	100	22/16	94	8.82
NZ Steel Dev. 5% 82	01	100	100	22/16	94	8.82
Nippon Credit 5% 80	01	100	100	18/18	94	9.85
Nippon Credit 5% 80	01	100	100	18/18	94	9.85
Scottish Lat. 5% 82	01	98 1/2	99 1/2	3/3	13.36	13.36
Soec. Pacific 5% 81	01	99 1/2	99 1/2	24/8	10.68	10.68
Soec. Pacific 5% 81	01	99 1/2	99 1/2	24/8	10.68	10.68
Standard Char. 5% 81	01	99 1/2	99 1/2	18/18	10.69	10.69
Standard Char. 5% 81	01	99 1/2	99 1/2	18/18	10.69	10.69
Swedish 5% 89	01	99 1/2	99 1/2	26/8	94	9.76
Swedish 5% 89	01	99 1/2	99 1/2	26/8	94	9.76
Average price changes... On day 0 on week -0 1/2						
CONVERTIBLE		Cm. Crw.				
BONDS		date	Bid	Offer	Chg.	day
Ajinomoto 5% 86	7/81	332	314	333	+0.4	5.17
Ajinomoto 5% 86	7/81	332	314	333	+0.4	5.17
Canon 7 7/8	7/82	728	722	733	+1.5	9.22
Canon 7 7/8	7/82	728	722	733	+1.5	9.22
Daikin 9 7/8	7/81	307	304	309	+1.0	9.29
Daikin 9 7/8	7/81	307	304	309	+1.0	9.29
Hitchac Cred. Co 5 7/8	7/81	287	281	287	+8.5	14
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Honda 8 3/4	7/81	322	315	322	+1.0	19.11
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Kumagai 5 3/4	7/81	302	300	309	+1.0	4.16
Kumagai 5 3/4	7/81	302	300	309	+1.0	4.16
Mitsubishi 8 3/4	7/81	322	315	322	+1.0	19.11
Mitsubishi 8 3/4	7/81	322	315	322	+1.0	19.11
Mitsubishi 8 3/4	7/81	322	315	322	+1.0	19.11
NKK 6 7/8	7/81	188	182	184	+1.1	25.57
Nippon Electric 5% 87	2/82	325	316	326	+1.0	5.78
Nippon Electric 5% 87	2/82	325	316	326	+1.0	5.78
Onoda Finance 5% 87	3/82	125	120	121	+0.4	6.38
Onoda Finance 5% 87	3/82	125	120	121	+0.4	6.38
Sanyo Electric 5% 86	10/81	652	646	653	+1.1	22.54
Sanyo Electric 5% 86	10/81	652	646	653	+1.1	22.54
Sanyo Electric 5% 86	10/81	652	646	653	+1.1	22.54
Shimizu 5 3/4	7/81	302	300	309	+1.0	4.16
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Shimizu 5 3/4	7/81	302	300	309	+1.0	4.16
Sumitomo 5 3/4	7/81	302	300	309	+1.0	4.16
Sumitomo 5 3/4	7/81	302	300	309	+1.0	4.16
Sumitomo 5 3/4	7/81	302	300	309	+1.0	4.16
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Sumitomo 5 3/4	7/81	302	300	309	+1.0	4.16
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Sumitomo 5 3/4	7/81	302	300	309	+1.0	4.16
Sumitomo 5 3/4	7/81	302	300	309	+1.0	4.16
Sumitomo 5 3/4	7/81	302	300	309	+1.0	4.16
Sumitomo 5 3/4	7/81	302	300	309	+1.0	4.16
Sumitomo 5 3/4	7/81	302	300	309	+1.0	4.16



**at 28th February 1983**

**BY OUR EUROMARKETS STAFF**

tainty over the direction of interest rates, and disappointment at the Federal Reserve Board's continued failure to cut the U.S. discount rate. As prices tumbled during the first half of the month bargain hunters jumped in to mop up some of the overhang.

In contrast, the second half of February produced almost 2bn new issues in the Euro-dollar sector, with \$460m of this launched on the 28th, following the  $\frac{1}{2}$  per cent cut in the prime rate by the major U.S. banks, and the statement by Mr

Paul Volcker of the Federal Reserve Board that U.S. interest rates were on the way down. At the same time, the six-month Eurodollar deposit rate closed on the 28th at 8½ per cent, the lowest level of the month, and a drop of ½ per cent since the beginning of February.

The improvement in the market halfway through the month followed the 1 per cent fall in the U.S. producer price index, which led to hopes of lower inflation and renewed speculation of a discount rate cut. A number of new bond issues were now launched, with the outstanding success being the \$250m seven-year bond for Siemens, the West German electrical concern. Again, this was equity linked, with each 7½ per cent bond carrying two warrants to purchase a total of nine shares at DM 265 each.

A sum of \$700m of new fixed-rate Eurodollar bonds were brought to the market during the last week of February. Among the new borrowers, Prudential Insurance of America offered \$100m of ten-year paper, carrying a 10½ per cent coupon, and Credit Suisse launched \$100m of seven-year 10½ per cent bonds. Despite

such aggressive pricing both issues fared well, showing the market's dramatic mood change, and the continued search for top quality paper.

As prices in the secondary market picked up generally towards the end of the month, the overall price change in this sector was a gain of around 2½ points.

In West Germany, DM 1.5bn of new paper was launched on to a market strained by the continued strength of the dollar, and uncertainty over the March election. A four-week new

issue calendar was set on the 17th totalling almost DM 2bn of new bond issues, including DM 290m for private placement. M.I.M. Holdings of Australia

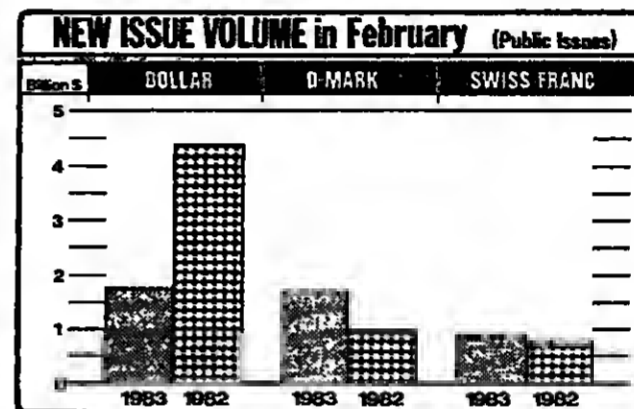
made its debut in this sector in February with a DM 100m seven-year issue, priced to yield 7.72 per cent. Another debut was by Banque Nationale de Paris, with a DM 100m seven-

The six-month Euro D-Mark deposit rate fell by  $\frac{1}{8}$  per cent to 5 $\frac{1}{8}$  per cent over the month. Also, as the New York bond

market strengthened towards the end of February and market participants were predicting a win for Chancellor Kohl's Government, so the market here firmed and prices closed about 1 point up on the month.

Prices in the Swiss Franc foreign bond sector showed little change in February. The market failed to rally due to the strength of the dollar, as the continued flow of new borrowers into this sector. Apart from the usual high number of private placements and convertibles for Japanese borrowers, some SwFr 795m in new straight public bonds was issued in February.

The Samurai sector (bonds issued by foreign borrowers on the domestic Japanese market) was also active in February when bonds totalling ¥110bn were launched. The World Bank, in addition to a ¥20bn 12-year Samurai, also issued a ¥20bn Euroyen. Other issues included ¥20bn for the Japanese Consulate for New Zealand, Electricite de France and the EEC, and ¥15bn each for Denmark and Malaysia. All the February issues yielded over 8 per cent at issue price, and there was some noticeable stepping up of this sector from older issues to the newer higher yielding paper.



## CONTENTS

GROUP HEADINGS	PAGE	GROUP HEADINGS	PAGE	GROUP HEADINGS	PAGE	The table of quotations and yields gives the latest rates available on February 28, 1983.
US Dollars—Algeria	I	US Dollars—New Zealand	II	Japanese Yen	IV	This information is from reports from official and other sources which the Association of International Bond Dealers considers to be reliable, but adequate means of checking its accuracy are not available and the Association does not guarantee that the information it contains is accurate or complete.
—Argentina	I	—Norway	II	Kuwaiti Dinars	IV	
—Australia	I	—Panama	II	Kroner (Denmark)	IV	All rates quoted are for indication purposes only and are not intended to be used as a basis for, particular transactions. In quoting the rates the Association does not undertake that its members will take in all the listed Eurobonds and the Association, its members and the Financial Times Limited do not accept any responsibility for errors in the table.
—Austria	I	—Papua	II	Kroner (Norway)	IV	
—Belgium	I	—Portugal	II	Luxembourg Francs	IV	
—Bolivia	I	US Dollars—Singapore	II	Saudi Riyals	IV	
—Brazil	I	—South Africa	II	Sterling/DM	IV	
US Dollars—Canada	I	—Spain	II	Australian Dollar/DM	IV	
—Colombia	I	—Sweden	II	External Sterling Issues	IV	
—Denmark	I-II	US Dollars—Switzerland	II	Sterling Floating Rate	IV	
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US Dollars—France	II	—United Kingdom	II-IIII	Convertible—Australia	IV	
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—Iceland	II	Australian Dollars	III	—Japan	IV	
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—Mexico	II	Eurodollars	III-IV	—S. Africa	IV	
—Israel	II	Euro Composite Units	IV	—Sweden	IV	
US Dollars—Japan	II	Euro Currency Units	IV	—Switzerland	IV	
—Korea	II	Euro Units of Account	IV	Convertible—US	IV-VI	
—Netherlands	II	Hong Kong Dollars	IV			

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## Abwood Machine property deal

In view of the increased involvement in the property sector, the directors of Abwood Machine Tools feel that ownership of the Lucky Plaza should be consolidated, and have con-

ditionally agreed to acquire the outstanding 49 per cent from Newport Plaza for £250,000. This will be met by an issue of 215,000 new ordinary shares of £1 redeemable preference shares 1997 at par and a deferred cash payment of £35,000.

All property assets are to be sold and the proceeds are to be distributed to the wholly owned subsidiaries. Abwood intends to continue to be

At March 31 1982 net tangible assets of Lucky Plaza amounted to £297,000, comprising principally the properties that were acquired in February 1982. These assets are carried on the balance sheet on normal commercial terms from United Overseas Bank. On an open market basis the properties have been valued at \$225,500 giving net tangible assets of \$225,500 less \$100,000

Newport Plaza is 75 per cent owned by Mr S. W. Gordon Ng and 25 per cent by Madison Investments (Singapore) Pte Ltd. The owner is Mr H. K. Chai (a director of Abwood) and his family. The directors of the company are Mr Chai and Mr George Ng. Another representative of Madison on the board of the company) and Madison are between them interested in some 33.9 per cent

**Wm. Jacks holds profit**

**FOR** The 1987 year 1982 turnover of William Jacks advanced by \$1.7m to \$17.6m, but 1982 before tax was only maintained—at \$452,469 compared with a restated \$465,469 in 1981.

The group is an overseas trader and manufacturer, motor car dealer and retailer. The 1981 turnover was \$13,225,781, net sales and overseas to \$399,274 (\$362,778).

The company's policy relating to summer credit division, together with anticipated costs involved in the closure of this side of the business, is as follows:

Results of Asco Garage Company have been included since acquisition—June 22 1983. Goodwill is included on the balance sheet through revenue reserves.

At the year end, shareholders' funds are \$1,238,131, net assets and net current assets at \$1,321 (\$1,531).

the transition of the opening net assets of overseas subsidiaries has been changed. Exchange fluctuations are now recorded as adjustments on the revenue reserves rather than taken through the profit and loss account. As a result, the 1981 profit before tax has been increased, giving rise to a reduction of £58,945.

After tax £198,536 (£196,982), the net profit came out at £128,633 (£126,848), and the net assets at £1,000,000 (£989,498).

**FT Share Information**

The following securities have been added to the Share Information Service:  
Eaton Investment (Section: Industrial)

**pan-holding**  
SOCIÉTÉ ANONYME LUXEMBOURG

The "Conseil General" of March 9, 1983 paid respect to the memory of Sir Siegmund G. Warburg. It co-opted the Lord Roll of Ipsden, KCMG, CB, Joint Chairman S.G. Warburg and Co. Limited and Chairman, Mercury Securities, Ltd. as the same day its meeting of the same day, the Board of Directors finalised the accounts for the financial year 1982. The accounts show a net profit in U.S. dollars, 6,485,028.80, including a net gain realised on sales of securities of U.S. dollars 5,527,000.80. Two

The board decided to propose to the Ordinary General Meeting, to be held on May 30, 1983, the distribution per share of U.S. drs. 50 par value outstanding on June 30, 1983, of a dividend of U.S. drs. 4.25 for the year 1982, i.e. an increase of 6.3%, on the dividend of U.S. drs. 4.00 paid for the year 1981.

The dividend of U.S. drs. 4.25 is free of withholding tax in Luxembourg and would be payable as from July 1, 1983.

The Company's unconsolidated net asset value

as of December 31, 1982, amounted to U.S. dollars 133,577,369.82, equivalent to U.S. dollars 191.25 per share, as compared to U.S. dollars 183.88 as of December 31, 1981, i.e. an increase of 4.0% or 6.2% if the dividend of U.S. dollars 4.00 paid in 1982 is taken into account. The company's consolidated net asset value as of December 31, 1982, amounted to U.S. dollars 194.74 per share. As of February 28, 1983, the unconsolidated net asset value amounted to U.S. dollars 198.53 and the consolidated net asset value amounted

to U.S. dls. 202.16 per share.

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**M. J. H. Nightingale & Co. Ltd.**

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**27/28 Lover Lane London EC3R 8EB Telephone 01-621 1212**

2000's		Change	Gross	Ytd	Full
capitalization	Company	Price on week	end	Actual	Yr. ended
4,988	Asst. Sec. Ind. Bnd.	156	—	82	10.0
	Asst. Bnd. Ind. CULS	156	—	100	8.3
3,705	Ansoning Group	94	—	81	7.3
	Asst. Sec. Ind. Bnd.	156	—	82	10.0
18,897	Barden Hall	305	—	114	37.7
1,675	CL Typ. Cn. Pml.	110	—	117	10.6
7,738	Cleddice Corp.	247	—	178	9.7
4,624	Dahmelt Services	524	—	60	11.3
	Frank Hovell	85	—	82	10.0
	Frank Hovell P. Ord	85	—	82	10.0
5,978	Fredrick Parker	87	—	11	10.8
	Gordon Blair	85	—	82	10.0
3,249	Ind. Precision Castings	79	—	75	9.2

3.583	Jackson Group	142	+4	7.5	5.3	4.4	9.0
26.371	James Burrough	191	+4	9.6	5.0	13.9	15.5
2.371	Robert J. Jensen	184	+	20.0	13.0	1.7	24.1
3.780	Scrutans "A"	71	+2	6.7	7.8	9.6	11.4
2.783	Towday J. Camp	27	+	11.4	1.0	5.1	8.9
4.082	Unifac Holdings	26	+	0.46	1.8		
8.414	Walter Alexander	65	+	6.4	9.7	4.7	5.9
6.139	W. S. Yantis	263	+1	17.1	8.5	4.1	6.4

Prices per new available on Fratrel page 45165.

To the Holders of  
TUPACHI MAXELL LTD

**HITACHI MAXELL, LTD.**  
**U.S. \$30,000,000 4½% Convertible Bonds Due 1997**  
**NOTICE OF FREE DISTRIBUTION OF SHARES**  
**AND**  
**ADJUSTMENT OF CONVERSION PRICE**  
 We, Hitachi Maxell, Ltd., hereby notify that, as the result of a free distribution of shares of its common stock to shareholders of record as of 10:00 A.M. Eastern Standard Time on May 1, 1997, the number of shares for each share held, the conversion price of the above-captioned Bonds will be adjusted pursuant to Condition 5, paragraph (D), sub-paragraph (1) of the Terms and Conditions of the Bonds.

768.30 to Yen 2,516.50 per share, effective as from 1st April, 1983, Japan time.

**HITACHI MAXELL, LTD.**  
1-88, Ushitori 1-chome  
Ibaraki City, Osaka, Japan

March 14, 1983

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STOCK OFFERS									
Issue price	Amount paid up	Latest financial data	1982-83		Stock		Closing price	+	
			High	Low	High	Low			
950	F.P.	96.9	26.4	533	875	AGB Research 10p.	835	+	
1340	Hil	Nil	Nil	121pm	40m	2-Ashraf 10p.	40m		
350	Hil	Nil	Nil	121pm	40m	Computer	900m		
51	F.P.	4.5	25.5	180m	50m	Audiographic E.S.	171pm		
50	F.P.	7.8	15.3	105	85	Gominton Int. 20p.	80		
76	F.P.	13.5	10.8	195	171	Geers Group 10p.	170		
82	Hil	21.5	7.7	50	50	Greastor Group 10p.	80		
340	Hil	Nil	Nil	43pm	50m	Magnet & Southern	46pm		
82	Hil	Nil	Nil	43pm	50m	Marine 10p.	46pm		
97	F.P.	21.7	7.3	45	55	Wagon Charlotte 10p.	40		
451.50	F.P.	Nil	Nil	77pm	40m	North B. Hill 50c	115		
50c	F.P.	12.7	21.5	58	58	SSS New 10p.	115		
50c	F.P.	11.5	8.8	80	34	Tand Lan. Corp. 15c	84		
400	F.P.	2.5	29.4	75	45	Tand L'Or 10p.	115		
400	F.P.	5.3	25.4	490l	46m	Jitramar	455		
61	Nil	Nil	Nil	81pm	40p	10p.	80pm		

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## PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus\*) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

[illegible]

**U.S.\$30,000,000**  
**SUMITOMO HEAVY INDUSTRIES, LTD.**  
*(Incorporated with limited liability in Japan)*  
**Guaranteed Floating Rate Notes Due 1984**



Unconditionally guaranteed as to payment of principal  
and interest by

**THE SUMITOMO BANK, LIMITED**  
*(Incorporated with limited liability in Japan)*

In accordance with the provisions of the Notes and Agent Bank Agreement between Sumitomo Heavy Industries Ltd., The Sumitomo Bank Limited and Citibank, N.A., dated 8th September, 1979, notice is hereby given that the Rate of Interest has been fixed at 9 1/8% p.a. and that the interest payable on the relevant Interest Payment Date, 13th June, 1983, against Coupon No. 15 is in respect of U.S.\$28,000 nominal amount of the Notes will be U.S.\$806.94.

14th March, 1983, London  
Citibank (U.S.S.) Dept. 1, Agent Bank **CITIBANK**

By: GILSON, John (Genl Deputy Agent Bank)

**FINANCE FOR INDUSTRY TERM DEPOSITS.**

Deposits of £1,000-£50,000 accepted for fixed terms of 3-10 years.  
Interest paid gross, half-yearly. Rates for deposits received not later than 25/3/83.

TERMS (years)	3	4	5	5	7	8	9	10
INTEREST % 104	104	104	11	11	11	11	11	11

Deposits in and further information from The Treasurer, Finance for Industry plc, 91 Waterloo Rd., London SE1 8XP (01-928 7822, Ext. 367).  
Cheques payable to "Bank of England, as FFI" FFI

**FPI** is the holding company for FCI & FFI

## NEW YORK STOCK EXCHANGE COMPOSITE PRICES

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السنة الأولى

## UK NEWS

Peter Bruce looks at the House of Commons inquiry into the state of the steel industry

# Money matters in the rescue of BSC

SIR DONALD KABERRY: "I heard the Secretary this morning when he said that probably a sum to the tune of £100m would have been saved through the closure of Ravenscraig."

Mr Ian MacGregor: "I recollect that figure."

Sir Donald: "But you put other cost options to Mr Jenkin."

Mr MacGregor: "As I said during an earlier exchange, his staff were familiar with the exercises I was carrying out..."

Sir Donald: "I asked you a specific question - did you put cost options to the Secretary of State?"

Mr MacGregor: "We did."

Sir Donald: "You did or not, sir?"

Mr MacGregor: "We did through his staff."

Sir Peter Emery: "Could we ask you, of the cost options was this (closing Ravenscraig) not the most expensive?"

Mr MacGregor: "No."

Sir Donald: "What would have been more expensive?"

Mr MacGregor: "Maintaining the full panoply of plants without proper loading."

Sir Donald: "You are still maintaining the full panoply of plants?"

Mr MacGregor: "That is right."

What began as a routine Commons Select Committee hearing into the state of Britain's nationalised steel industry last October mutated into an investigation in January.

The central question was: Why had Mr Patrick Jenkin, the Industry Secretary, instructed the British Steel Corporation to continue making steel at all its major plants despite crippling losses?

The Industry and Trade Committee has now released a 114-page report on its findings, including evidence from Mr Ian MacGregor, BSC chairman, Mr Jenkin, and Mr Bill Sims, general secretary of the Iron and Steel Trades Confederation.

It seems quite possible that more evidence will be taken once details of BSC's new corporate plan are made public, probably early next month.

Over and above the main criticisms levelled by the MPs at both the Government and Mr MacGregor, the report highlights several major burdens confronting BSC, the Government and the unions as they rescue Britain's steel industry.

● BSC and the Government differ widely in their steel market forecasts.

● BSC and the TUC Steel Committee differ equally widely on assessments of productivity.

● BSC believes, unlike the Government, that the UK may fall foul of EEC subsidy rulings if its losses are continually propped up by Government.

● BSC believes its energy costs put its products at a major cost disadvantage to most of its EEC competitors.

● Except for Italy, the Corporation believes its ties with the state are the least beneficial in the Community.

Mr MacGregor explained the Government's decision to maintain steelmaking at all of BSC's five integrated plants, a decision he opposed, as delicately as possible.

He said: "I got the impression that the Secretary of State wished to buy some insurance; I presumed, therefore, he was prepared to pay the premium."

The premium turned out to be £100m, and Mr MacGregor made it clear the sum was payable annually.

"I gather," he said a little later, "that (the £100m) is the price of the insurance premium which the Secretary of State wishes to pay to insure himself against miscalculation of the market by us."

Figures BSC gave to the committee show demand in the UK, currently at 11.8m tonnes a year, rising to only 12.5m tonnes by 1984/85 and falling back to 11.7m tonnes by 1985/86.

Mr Jenkin was asked whether he thought the BSC figures were too pessimistic. "No," he said. "All I am saying is that I do not have such overriding confidence in the figures that I would be prepared to say on that basis Ravenscraig is out."

"We (the Government) are entitled to take a broader look and there may be varying trends in the economy which may not be shown up... in future forecasts of likely consumption of products."

Clearly, the committee was not satisfied with that. Mr MacGregor's forecasts were "realistic," it concluded, and Mr Jenkin's argument that he was not prepared to take an irrevocable decision on the basis of those forecasts "was essentially a political rather than an economic decision."

Mr MacGregor was equally delicate when confronted with evidence from the unions, arguing that BSC's labour costs and manning levels were the lowest in Europe at comparable plants.

"I am afraid that our friends are a little too optimistic," he said, "and we are not quite as good as they would hope us to be."

He said that in recent months annualised production per man in BSC was about 13 per cent below the West German level and about 15

per cent below the French. He brushed aside a suggestion that this might have something to do with the fact that up to 25 per cent of the BSC workforce had been on short time last year.

One of the most revealing passages in Mr MacGregor's evidence came when he was asked whether he thought the decision to keep on steelmaking at the major plants would encourage reaction from the EEC Commission.

"I think there is a good chance we will have trouble in the future on the whole question of restructuring and subsidies," he said.

All EEC steel subsidies are due to be phased out by the end of 1984, but Mr MacGregor seemed to feel that costly decisions, like keeping Ravenscraig open, could bring the wrath of Brussels on BSC.

"I get the general impression there will be more serious efforts in Brussels to force restructuring," he said. "The best handle they have is that they will have to give approval of capital expenditure."

The Europeans countered British arguments about having performed the most radical surgery in steel so far in Europe by pointing out that their internal steel markets had held up better.

In a separate note to the committee, BSC said research by its consultants had shown it benefited least in the Community from Government action.

The consultants had calculated that the cost to the Corporation's profit and loss account of Government intervention in 1981 amounted to some £7 per tonne of crude steel.

Second report from the Industry and Trade Committee on BSC's prospects, House of Commons Paper 212-157-I-iii, Stationery Office, £2.

Estimate of the impact of Government intervention on the profit and loss of the BSC steel industry in 1981 (£/tonne of crude steel)						
	BSC	Germany	France	Bel/Lux	Italy	EEC excl BSC
Grants and loans	20	3	11	8	8	7
Cost of state intervention	(7)	0	(4)	(2)	(4)	(2)
Allocation of social costs	3	4	8	7	2	4
Research and development	0	1	1	1	1	1
Transport	0	7	5	5	3	5
Energy	(5)	0	0	0	0	0
Total	11	15	18	19	10	15

This table, produced for BSC by consultants Malmgren, Goff, Kingston, suggests that, despite its high level of grants and loans, BSC is penalised - compared with other EEC producers - by political intervention (e.g. keeping loss-making plants open for employment reasons) and by having to pay higher costs for gas, electricity and fuel oil. Other European governments, especially Germany, make large contributions towards the operating costs of railway and canal systems, which are of great benefit to the steel industry. The estimates suggest that the BSC receives less net benefit from Government intervention than the average for the EEC steel industry.

## Motor account competition disrupts composite insurers

BY ERIC SHORT

OVER THE past week or so, Britain's three major U.S.-oriented insurance companies, Commercial Union, Royal Insurance and General Accident, have reported their results for 1982.

The figures showed a dismal picture of insurance operations not only in the U.S., but in the UK as well. Not surprisingly, one major problem area in the UK was motor insurance.

General Accident, for example, had underwriting losses on its UK motor account of £20.6m in 1982 against a profit of £1.9m the previous year. Royal Insurance lost between £14m and £18m in 1982 according to market estimates compared with a £1m profit in 1981, and Commercial Union fell from a 1981 profit of £3.5m to a £9.2m loss.

The underlying cause of this deterioration is quite simple - the intense and growing competition between insurers in the UK for motor insurance business.

The UK insurance market in Britain is static as far as corporate business is concerned, both from

the recession and from intense competition from overseas insurers coming into the UK. So insurance companies have turned to the private sector for their UK growth.

UK motor business is already very important to UK insurance companies. The annual survey on UK motor insurance from stockbrokers Rowe and Pitman, out today shows that in 1981 premium income on UK motor insurance business from the seven major composites amounted to £859m - 13.7 per cent of their total premium income from their worldwide general insurance business.

UK motor insurance business is therefore worth acquiring for its own sake. In addition, the return on capital is higher than for other types of personal insurance, since companies have use of the money for longer periods.

The net result has been that UK insurance companies have kept their motor premium rates unchanged, when in normal circum-

stances they would have increased them. Annual increases were normal until this competition became widespread two or three years ago.

The effect can be seen from the Rowe and Pitman survey. Premium rate increases in 1980 were averaging 19.5 per cent. In 1981, this rate of growth had fallen to 7.3 per cent, while last year, it had dropped to 3.8 per cent.

Insurance companies made very few increases last year. The survey lists 16 comparatively small ones among over 100 UK motor insurers.

However, things started to go wrong in 1982, primarily because the number of claims suddenly rose sharply over the final quarter. The insurance industry points to such factors as the cheapness of petrol prices and the wet weather in November and December as contributory factors.

Whatever the reasons, GA reported a 10 per cent rise in claims last year and Royal a 6 per cent increase.

### Anglo American Industrial Corporation Limited

(Incorporated in the Republic of South Africa)

#### PRELIMINARY PROFIT ANNOUNCEMENT

Subject to final audit, the following are the preliminary results of the corporation and its subsidiaries for the year ended December 31 1982.

	1982 R million	1981 R million
Turnover	1 707.5	1 224.3
Trading profit	248.1	238.1
Income from associated companies	101.0	59.0
Dividends	68.1	19.3
Share of retained profits after tax	32.9	39.7
Income from investments	5.6	8.0
Interest earned	12.0	7.4
	366.7	312.5
Expenditure on research and development	7.5	5.9
Interest paid	61.3	34.1
	68.8	40.0
Taxation	297.9	272.5
	53.8	68.2
Profit after taxation	244.1	204.3
Outside shareholders' interest in profits of subsidiary companies	44.1	25.6
Dividends paid to former shareholders by subsidiary companies	11.3	—
Preference dividends	1.9	—
	57.3	25.6
Profit attributable to ordinary shareholders	186.8	178.7
Extraordinary items (Notes 3 and 4)	(11.3)	2.2
Number of ordinary shares in issue	45 678 782	26 972 547
Earnings per ordinary share - calculated after excluding the 349 164 shares in the corporation held by its wholly-owned subsidiary, De Beers Industrial Corporation Limited (Debinco)	416.6	662.6
Dividends per ordinary share	180.0	165.0
—Interim	55.0	50.0
—Final	125.0	115.0

Notes:

- The results for the year under review are not comparable with those of 1981 because of the merger with Debinco and the acquisition of certain additional industrial interests.
- The group's capital commitments as at December 31 1982 amounted to R674.0 million (1981: R759.7 million). The major portion of this relates to the pulp mill complex being established by Mondi Paper Company Limited at Richards Bay. The project is making satisfactory progress and present indications are that the original target date for commissioning the mill in October 1984 will be achieved. Negotiations for the purchase by Mondi of the ordinary share capital of Usutu Pulp Company Limited have been terminated.
- As announced in the Press on March 5 1983, Sigma Motor Corporation (Proprietary) Limited (Sigma) incurred a loss of R55 million in the year ended December 31 1982. The corporation's attributable share of this loss amounted to R29.9 million, of which R16.8 million has been charged against current profits and represents this corporation's share of Sigma's retained profits brought to account in prior years. The balance of R41 million has been dealt with as a provision against the cost of the corporation's investment in Sigma and is included in extraordinary items. Subsequent to the year end, this corporation and Anglo American Corporation of South Africa Limited (AAC) have acquired the 25 per cent equity interest in Sigma previously held by Chrysler Motor Corporation. Consequently, this corporation and AAC now each hold a 50 per cent equity interest in Sigma. For some time it had been recognised that Sigma was over-gearred and this had been the subject of unresolved discussions between the shareholders for the past two years. The present shareholders are now proceeding with the refinancing of Sigma to put it on a sound financial footing. Sigma's new management has implemented steps to remedy the company's difficulties and anticipates that it should be restored to profitability in 1984.
- The balance of the amount charged under extraordinary items relates mainly to unrealised foreign currency losses on loans raised by Boart International Limited in its Mexican and other international operations.
- In accordance with the terms of issue of the 15 000 000 12.375 per cent cumulative redeemable second preference shares, 1 500 597 of these shares were redeemed in part on October 29 1982 and the remaining shares in this series will be redeemed in nine annual instalments.

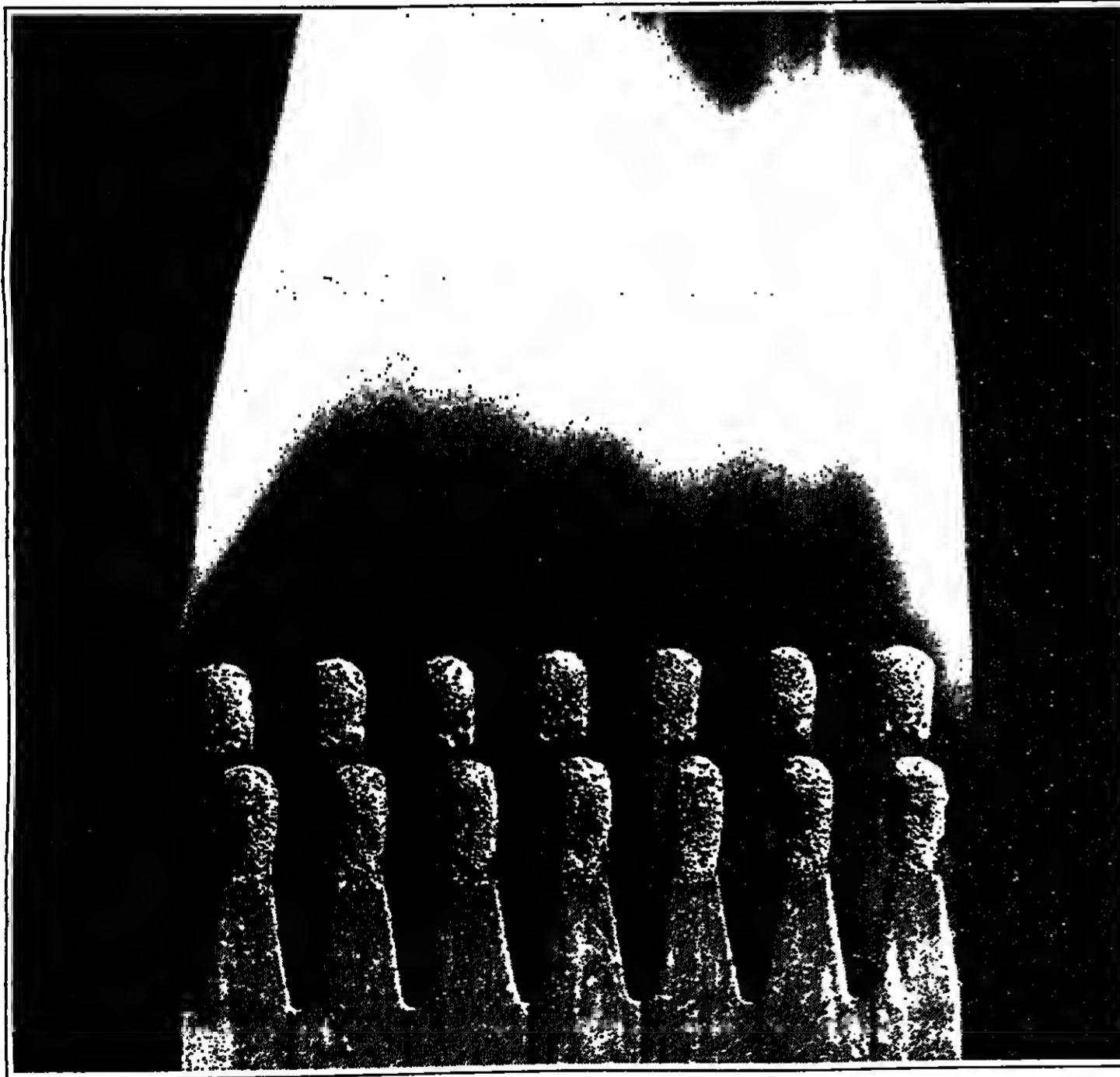
It is anticipated that the annual report will be posted to all registered shareholders on or about March 28 1983.

#### ORDINARY DIVIDEND NO. 38

A final dividend of 125 cents per share (1981: 115 cents), in respect of the year ended December 31 1982, has been declared payable on May 6 1983 to ordinary shareholders registered in the books of the corporation at the close of business on March 25 1983. This dividend, together with the interim dividend of 55 cents per share, declared on August 25 1982, makes a total of 180 cents per share for the year (1981: 165 cents). The ordinary share transfer registers and the ordinary section of the register of members will be closed from March 26 to April 15 1983, both days inclusive, and warrants will be posted from the Johannesburg and United Kingdom offices of the transfer secretaries on or about May 6 1983. Registered shareholders paid from the United Kingdom will receive the United Kingdom currency equivalent on March 28 1983 of the rand value of their dividends (less appropriate taxes). Any such shareholders may, however, elect to be paid in South African currency provided that the request is received at the offices of the corporation's transfer secretaries in Johannesburg or the United Kingdom on or before March 25 1983. The dividend is payable subject to conditions which can be inspected at the head and London offices of the corporation and also at the offices of the corporation's transfer secretaries, Consolidated Share Registrars Limited, 1st Floor, Edura, 40 Commissioner Street, Johannesburg 2001, (P.O. Box 61081, Marshalltown 2107) and Charter Consolidated P.L.C., P.O. Box 102, Charter House, Park Street, Ashford, Kent, TN24 8EQ. The effective rate of non-resident shareholders' tax is 15 per cent.

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**No FT...  
no comment**

FOR SOME years now there have been rumblings among administrators of the criminal process that trial by jury is inappropriate, at least in complicated fraud cases. The defrauder is not as much entitled to that privilege as the burglar or the robber, Mr. Justice Gibson gives a categorical "No."

In January 1973 a leader in *The Times* said that "there is a strong feeling among jurors moving from jurors committed to complicated frauds and other cases turning on intricate financial transactions, it is extremely doubtful whether the jurors can adequately follow the detailed and difficult evidence."

Last month in an article in

the same newspaper headed "Pin-striped frauds," the author expressed the view that many people in the City believed in the inherent integrity of the City as much as the failure of successive governments to tackle fraud as to inherent dishonesty among those working there, and it went on to report that Mr. Patrick Neill, QC, chairman of the Fraud Investigation Board, did not hit for jury trial, that there was, of course, by eternal warning, surrounded by one 19th-century commentator, that it is always "difficult to get the British bosom into a sufficiently tranquil state to discuss this great subject". But the tranquillity or lack of it is not the point, it is the burdensome cost and ineffectiveness of many fraud trials.

the Council for the Securities Industry (and also chairman of the Press Council) favoured juries composed of experts on the ground that ordinary jurors found it difficult to follow complex evidence full of tortuous financial detail.

company fraud he found the cost and unpredictability of fraud trials both discouraged prosecutors from pursuing cases and encouraged defendants to believe that they could get away with their crimes.

What basis is there for thinking that the public and prospective accused would find an alternative form of criminal redressable?

for experimenting with a mode of trial in fraud cases that may provide greater public satisfaction while not in any way diminishing the high quality of criminal justice in our courts.

To the twin questions of whether trial by jury is not the glory of English law and the most trustworthy privilege of each subject, can enjoy, and always be enjoyed, by all, the answer is, of course, *Yes*.

ence of the commercial world  
in the unpredictable response of  
uninstructed jurors.

There is another factor that would make trial by a professional tribunal attractive to both defence and prosecution alike; the verdict of the court would inevitably follow the standard pattern of courts in providing a reasoned judgement.

It would also facilitate the system of appeals. A jury gives no reasoned judgment for its verdict, and in the absence of error of law or some material irregularity in the trial, or the adducing of fresh evidence (a restricted power in the Court of Appeal), the jury's verdict is inviolate and unassailable by judicial process.

There is everything to be said for an uninhibited review of a trial court's decision instead of the limited function of an appeal court in criminal trials by jury.

In 1875 the James Committee had the task of examining the division of work between the Crown Court, county court and the magistrates' courts for summary trial. In deciding what sorts of criminal charges a defendant might face and still retain the right to trial by jury, the committee adopted the criteria of seriousness. If the public regarded a crime as serious and the defendant viewed the charge as having serious consequences for himself,

the recommendation for criminal damage was accepted, but parliament threw out a clause in the Bill removing trial by jury for minor theft.

Theft cases in any event are well within the compass of understanding by jurors, and the savings in time and money which would result from substituting summary trial for

jury trial would be insufficiently large to justify the change in the law. Mr Justice Gibson believes that the public would regard in a quite different light proposals for the trial of cases of this kind by a professional tribunal, so long as the alternative mode of trial was itself a fair method of adjudicating on guilt or innocence.

Trial by jury has itself come under the criticism of many in recent years. The experience of working a different mode of trial for complicated fraud cases, together with the banding of appeals from such a tribunal on the basis of a

Dissatisfaction with a professional tribunal for fraud cases could lead to the termination of the experiment, or the two systems would be known to function side by side, acknowledging that there was room for both systems for different kinds of cases. If the experiment appeared to work well and earned general public confidence, the opportunity would be afforded of extending the scope of trial rather than by jury.

Whatever be the verdict on the experiment, there is nothing to gainsay the view that it is an experiment which should be made. Jury trial, the apotheosis of amateurism, is not universally suited to unravelling the complexities of criminal behaviour in late 20th century Britain.

trial by jury.  
In the Criminal Law Act 1977

• Justinian

## AUTHORISED UNIT TRUSTS

[illegible][illegible][illegible]

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## OIL AND GAS Continued

[illegible]



# FINANCIAL TIMES SURVEY

## International Capital Markets

The world debt crisis, lower inflation and falling interest rates combined last year to produce a sharp change in international capital markets, with syndicated loans falling away and bonds showing record volume. This survey discusses developments in the light of economic prospects.

**THE PAST** year has seen a sea change in the international capital markets. Against a backdrop of falling inflation and gradually easing interest rates, international bond markets have sprung to life while the syndicated credit market wilted under the impact of the Latin American and Eastern European debt crises. Less than \$10bn last year separated the total volumes achieved in the two markets. Inflation in the U.S. has fallen to less than 4 per cent from 6 per cent in 1981 and its peak of 14.7 per cent in March 1980. Interest rates have come down too, with the prime rate now standing at 10 1/4 per cent compared with 15 1/2 per cent at the start of last year. But this is still very high in real terms and lasting world economic recovery still hangs on the durability of the first quarter upturn in U.S. industrial output.

### Total return

Gone are the days when bond investors saw the capital value of their bonds being remorselessly eroded by inflation. Returns in the Eurodollar bond market still exceed 10 per cent annually, and according to Salomon Brothers, the U.S. investment house, Yankee bond issues (bonds issued by foreigners in the New York market) actually offered a total return of 40.1 per cent last year when interest income and capital appreciation were taken into account. "Bonds have become respectable again," says Mr Philip Hubbard, an executive director of Orion Royal Bank.

The total money raised in the international bond market last year rose by \$23bn to \$78.3bn according to figures compiled by Morgan Guaranty. This was not only a record; it brought the bond market within striking distance of the Eurocredit market in terms of total business volume. Total new Eurocurrency bank credits were only \$84.18bn last year compared with \$133.35bn in 1981.

The increase in new international bond issues was broadly based, with an upturn in business reported in most individual currency sectors. It was particularly marked in the dollar Eurobond sector, however, where U.S. companies issued \$11.5bn of new paper. Total new issues of dollar Eurobonds rose to \$42.9bn from \$26.83bn in 1981.

There were two main reasons for the success of the dollar Eurobond market in 1982. U.S. borrowers found it attractive to issue bonds in Europe because for much of last year interest levels were slightly lower than those prevailing on their own domestic bond market. International investors found dollar issues attractive because of the strength of the U.S. dollar against Continental currencies and the Japanese yen.

For the longer-term the first of these factors marks an important stage in the education of those involved in international corporate finance. For many years U.S. corporate issuers of bonds regarded the Euromarket as a rather insignificant appendage to their own domestic market. Now, however, they are increasingly attuned to the opportunities it offers not only to shave the cost of borrowing compared with an issue in the domestic market but also as a

complementary source of funds. As the U.S. Government continues to clock up record budget deficits there is a persistent fear in some quarters that it will crowd other borrowers out of the U.S. domestic market. Already some quasi-state agencies such as the Farm Credit System are looking at the potential of the Eurobond market for precisely this reason.

The inference is that the Eurobond market could now see a sustained stream of U.S. borrowers. Whether it will readily be able to accommodate such interest is another matter. Much depends on the likely course of interest rates, which most investment bankers expect to drop more slowly from now on. The currency factor is also very important. Eurodollar bond investors know that dollar exchange rate fluctuations matter much more to their overall return in the bond market than any change in the secondary market value of their holdings.

The Eurodollar bond market has also not yet managed to overcome one of its most serious handicaps — the propensity of issue managers to flood the market with billions of dollars of new paper every time there

is a sign of renewed investor interest. This quickly leads to indigestion and even after last year's record volume the market has lost some of its stop-go characteristics. What did change last year, however, was the interest rate structure with which issue managers were working. Short-term rates fell below those in the long-term market and made it

possible for lead managers to finance their bond inventory at a profit while they waited for the market to improve. In a study of the total returns available from the different sectors of the international bond and money markets Salomon Brothers pointed out earlier this year that the return on money market investments last year fell below that on bonds for the first time in five years. Salomon also calculated that the total return on Eurodollar floating rate notes (which is linked to short-term money market rates) fell last year to 15.2 per cent from 20.1 per cent in 1981. The return on fixed rate Eurodollar bonds jumped to 30.5 per cent from 4.5 per cent because of the substantial increase in capital value on many outstanding issues.

they have seriously undermined the ability of some sovereign borrowers to repay their debts. Throughout much of the 1970s developing countries were able to increase their external debt in nominal terms because its value was constantly being eroded by inflation. Interest rates were also negative in real terms. Since 1981 all that has changed as industrial countries have sought to stamp out inflation by imposing a harsh monetary squeeze.

All this meant that 1982 was not only a vintage year for business volume in bonds — it was also a record year for profits. The basic economic factors affecting the Euroloan market are not much different from those affecting the bond market but whereas the fall in inflation and high real interest rates have made bonds respectable again

from international banks amount to little more than a rescheduling in disguise. Leading governments, commercial banks, central banks and institutions such as the International Monetary Fund have stepped up their co-operation in an effort to cope with these problems. Elaborate rescue packages have been worked out for countries as diverse as Yugoslavia and Brazil. Now the financial community is waiting anxiously to see whether they will work.

Much is at stake in all this, not only for the leading banks but for world economic stability as a whole. The debt problems of the developing world last year added another twist to the spiralling world deflation. Now most industrial governments would like to refit their economies so that growth can resume and unemployment abate. But one constraint in all this remains the fear of a resurgence of inflation as the monetary squeeze is relaxed. This must be the most significant factor buttressing long-term interest rates at the moment. It is proving difficult for the authorities, particularly in the U.S., to convince the bond markets that the dangers of inflation have truly abated. Only when they have managed to do so can interest rates really start to fall in real terms and this in turn will be a key factor in restoring the creditworthiness of the debtor nations in the developing world.

More than ever, the behaviour of the capital markets has become a crucial indicator of the world's prospects for economic recovery.

Nowhere has this crisis been more acute than in Latin America, traditionally a very heavy taker of funds from the international banking system. Only a handful of major borrowers have escaped unscathed from the debt crisis epidemic. This happy band still includes Colombia and Peru, although Peru's latest efforts to raise a loan of around \$800m

raise a loan of around \$800m

## Bond issues spring to the fore

By PETER MONTAGNON, Euromarkets Correspondent

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## INTERNATIONAL CAPITAL MARKETS II

Economic developments this year remain difficult to predict  
but some mild optimism seems justified

## U.S. signals stir hopes for recovery

MORE THAN at any time since the war, economic forecasters are nowadays in uncharted seas. Most of the world's major economies are more battered and the direction and strength of favourable currents more baffling than they have been perhaps since the 1930s.

As a consequence, most of the recent forecasts suggesting that the world's long voyage through recession may be coming to an end and been more than usually qualified.

Moreover, the repeated frustration of false hopes during the last 18 months has led many people to look askance at prophecies of more prosperous times. As a result of this lack of confidence and the continuation of high real interest rates, productive investment remains depressed. By itself this is likely to exercise a drag on growth for some years to come.

However, despite the daunting weight of Third World debts, the still rising trend of unemployment, the fear of inflation and protectionist threats to world trade, it would be a mistake to be too gloomy.

This spring, unlike last, it really does seem as if a revival of economic fortunes is stirring. In the U.S. the signs are still ambiguous, since output continued to decline in the fourth quarter of last year and the latest investment intentions survey indicated a real decline of 5 per cent in business investment in the current year.

Against this, however, employment has recently started to rise, housing and car sales have been surprisingly buoyant and leading economic indicators rose by 3.6 per cent in January, pulling business confidence along with them.

The U.S. Administration has swerved sharply away from its previous excessive optimism compared with last year's average and is now forecasting a cautious 1.4 per cent growth in output this year, a figure which many commentators are confident will be exceeded. Perhaps most important of all, there have been strong indications that the U.S. authorities intend to back recent rhetoric with action to nurture the recovery by taking an easier view of monetary policies. The Treasury Secretary, Mr Donald Regan, said recently that he expected growth to be faster than the official forecast which predicted a rise of 3 per cent in output during the year.

The major uncertainty is the extent to which the financial markets will respond to easier policies by the Federal Reserve Board and allow interest rates to resume last summer's downward path. There still appear to be anxieties in the markets that even cautiously easier policies will lead to higher interest rates and therefore justify a rise in interest rates rather than a fall.

While the U.S. economy remains poised between expectations of growth and the drag of a persistent recession, the economies of the rest of the world appear to similarly be becalmed—because a number of very important signals for renewed growth still need to come from the U.S.

First, a sign that U.S. output is belying to an unfixed wind would do a great deal for confidence elsewhere and perhaps help to secure a recovery in investment as well as in trade. Second, a substantial U.S. recovery would put pressure on the balance of payments current

account and so tend to weaken the dollar. Although this would help U.S. exports, it would also benefit all oil-importing countries since oil is priced in dollars. A weaker dollar would also enable interest rate policies in Europe to be less dependent on U.S. interest rates.

Thirdly, recovery in the U.S. would tend to increase competition between the corporate sector and the Federal Government for the nation's savings. Other things being equal, this would be expected to lead to a renewed

destocking in the current year should provide some room for growth in output.

A further fall in oil prices should provide an important stimulus, particularly to the oil-importing countries. The West German economy has already shown signs of strengthening with a 4 per cent rise in industrial production in January.

The National Institute of Social and Economic Research is predicting that output in the industrialised world will grow by 1.4 per cent this year and by 2.7 per cent next. This growth would not be enough, however, to cause a fall in unemployment, which the institute expects to climb from an estimated 8.2 per cent of the workforce in 1982 to 9.5 per cent in each of the two following years. The institute is also expecting last year's 2 per cent decline in world trade to be reversed, with a 1 per cent pick-up this year and 3 per cent next year.

The London Business School broadly agrees with this picture although it believes the pick-up in world trade will be modest this year, with higher growth in 1984.

Even if there are strengthening grounds for hope of a pick-up in activity this year and next, a great deal of doubt remains as to whether growth can reach the rate of 5 per cent achieved by the major countries in the 1960s for a long time.

Feminists point out that it is by no means certain yet that the U.S. recovery will be sustained beyond the temporary effect of a stock turn-around, particularly if an underlying anxiety remains about the conflict between potentially huge budget deficits and the need for monetary control. More generally, the outlook for re-

WORLD ECONOMY  
MAX WILKINSON

rise in U.S. interest rates. The extent to which this will in fact happen is one of the major uncertainties.

There are already signs that the monetary policy is easier and it is clear that the Fed does not want to jeopardise the chance of recovery in the U.S. and in the world. On the other hand, there is no indication at all that the Fed would be prepared to countenance such a major relaxation as would risk a new outbreak of inflationary fires. If the world is uncertain how the line is to be drawn, it is likely that the Fed and the Administration are both also uncertain.

In the near term there are now considerable forces outside the U.S. which seem likely to ensure some renewal of growth this year after last year's fall in investment as well as in trade of the industrialised world. Stocks are now generally at low levels, so that even a slower rate of

scheduling a large portion of the \$600bn of Third World debt remains highly uncertain. Any continued period of stagnation of world trade would almost certainly plunge many debtor countries into a renewed period of crisis.

More immediately, a sharp fall in the oil price to, say, \$25 per barrel or less would create major problems in relation to the debts of Mexico and other oil-exporting debtor countries, even though it would alleviate the position of the countries without oil and generally help the world economy.

These problems may prove only briar patches that the world economy has to push through but if the impetus for recovery were weak, any obstructions could prove serious.

Beyond these difficulties lies the great unanswered question of whether inflation has in some sense been "defeated" by the severe recession of the last three years or whether it is still a sleeping dragon. There have been numerous warnings from international bodies that further progress against inflation must increasingly depend on moderation in wage settlements.

Falls in commodity prices cannot be expected to take the strain indefinitely and indeed there are now signs that commodities other than oil are beginning to be priced more firmly.

The danger, therefore, is that governments will perceive inflation as a continuing danger and will be unwilling to make more than a very cautious relaxation of fiscal and monetary policies. Recovery might then be pushing for a long time against a door which has a strong spring on the other side of it.

## Problem of huge increase in Third World debts

MORE THAN 25 countries around the world are now in arrears in the process of rescheduling or have already rescheduled portions of their bank debt. Their combined outstanding bank debt is estimated to be more than \$200bn—nearly half the total debt developing countries and the Eastern bloc owe to commercial banks.

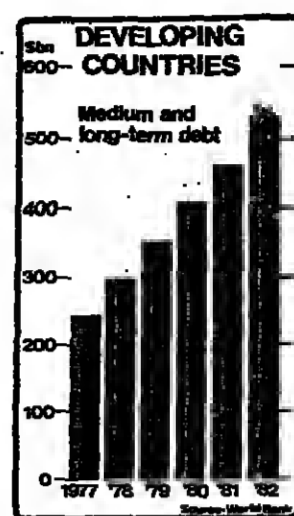
This statement to a U.S. Congressional Committee by Mr Rimmer de Vries, senior vice-president of Morgan Guaranty and a noted international bank economist, illustrates dramatically the extent of the debt crisis that has swept through Latin America and the Eastern bloc over the past 18 months.

One of the most remarkable things about the present crisis, as Mr de Vries points out, is that it has been contagious. Debt problems in one country such as Poland or Mexico have engendered problems in others. This is in marked contrast to the 1970s, when the two largest rescheduling, involving debt owed by Turkey and Peru, passed without sparking problems elsewhere.

Part of the reason for this is the way in which the numbers have grown. Poland's debt rescheduling in 1981 sent a shiver through the banking community because it was the largest ever, involving a country with debts of around \$25bn. The rescheduling of Mexican debt sent a violent shudder through the system because its total debts were more than three times higher at \$80bn.

Yet even the raw numbers offer little by way of explanation as to why the long-feared crash of the world debt came suddenly during the summer of 1982. What happened and why?

One of the first signs of trouble for Latin America borrowers came last April when Argentina invaded the Falk-



## RESCHEDULING

PETER MONTAGNON

lands Islands. In the political confusion that followed, international banks began to cut back their lending to Argentina, whose total debts have been officially estimated at between \$37bn and \$43bn. It was not long before Argentina began to run up large arrears on international debt service payments; at the same time banks had an opportunity to scrutinise other Latin American borrowers more closely and they did not like what they saw.

In the background Mexico was on an unprecedented borrowing spree. Unable to cut its government spending sufficiently to offset lower-than-expected oil revenues and high interest rates, it had stepped up its borrowing.

CONTINUED ON NEXT PAGE

## Top borrowers pay more in selective market

"BLAM!" says the cover of the February edition of Euro-money, the monthly magazine on the Eurocurrency market. "Syndicated lending out for the count," reads its caption over a strip cartoon picture of a banker bawling his face punched in by a red-dotted clenched fist symbolising the debt disasters of Latin America and Eastern Europe.

It is easy to sympathise with this view of the market in the early weeks of 1983. The traumas of rescheduling the huge debts of countries such as Mexico, Argentina, Brazil and Poland have left banks with seemingly very little appetite for what was once a growing and dynamic business. No one now expects the syndicated loan market to keep up its high volume of previous years in 1983; yet experience so far this year has brought some good news as well as bad.

The main point is that some large deals are being successfully put together. For borrowers this is good news because it shows that the market is still open, at least to the relatively better risks; for banks it has been gratifying to note that these borrowers are at last willing to offer a higher price for their money.

Large loans announced since the start of the year include \$1bn each for Sweden, Denmark and Indonesia as well as \$500m for the Korea Exchange Bank and \$400m for India's Oil and Natural Gas Corporation. The Danish and Swedish deals were subsequently increased to \$1.3bn and \$1.5bn respectively as one further indication that money is still available in large amounts to select borrowers.

But a feature of almost all the new business has been a marked increase in margins. Most of this year's large borrowers have been names that last year would have hoped to negotiate a margin as low as 1 per cent over London Eurodollar rates for at least part of the loan's life. The bottom line now seems to stand at a margin of 1 per cent.

Within the Eurocredit market there is one school of thought that believes higher margins on their own will be enough to keep business going. Eurocredits have become more profitable as banks need more profits in order to provide against potential losses on bad loans, this school argues. Response to credit announced so far this year, particularly at the lead manager level, suggests that margins may not have to rise all that far for the market to revive.

This argument is at the other end of the spectrum to the message on the Euromoney cover but like that notion it is probably an oversimplification of a situation that actually lies somewhere between. The truth of the matter is that the state of the Eurocredit market has become extremely difficult to read over the past few months and with the debt crisis in Latin America still largely unsettled even a correct reading of today's

## NEW EUROCURRENCY BANK CREDITS

	1978	1979	1980	1981	1982
Total	70.17	82.31	77.29	133.25	94.18
of which funds raised by:					
Industrial countries	28.95	27.25	39.10	86.02	42.51
Developing countries	37.29	47.96	35.05	45.24	40.76
Communist countries	3.77	7.23	2.81	1.79	7.76
International organisations	0.16	0.23	0.43	0.30	0.15

Source: Morgan Guaranty Trust.

market might become invalid in a few months' or even weeks' time.

What is clear, however, is that there are several factors which are likely to be of vital importance in determining the direc-

EUROCREDITS  
PETER MONTAGNON

tion of international bank lending as the year progresses. These include:

● The degree to which debt packages being negotiated in Latin America and in countries such as Yugoslavia can be held together. Much depends on the success of IMF programmes in all these countries.

● The degree to which the world economy recovers and interest rates decline. This will ease the debt service burden on key borrowers by allowing them to boost their exports while at the same time paying less in interest on their foreign debt.

● The trend of the oil market. A sharp and rapid fall in world oil prices is of immense benefit to some borrowers because it reduces their overall import bill but can rebound through the closure of export markets in oil exporting countries. Mexico has already cut its imports by several billion dollars and is likely to be hard hit by a new drop in the oil price.

If this leads to a new Mexican debt crisis, confidence in the international banking system could be eroded further and this might spread even to those countries whose balance of payments is helped by the lower cost of oil.

● The success or failure of big participations in new loans to smaller institutions. So far there has been little opportunity to assess the prospects for this. Denmark's loan attracted over \$300m in syndication, an outstandingly good record, but it came from surplus oil-producing countries with which they wished to remain on good business relations. Now those countries' verdict on the result is also clouded by the growing tendency of loans to be top-heavy at the lead manager level.

There are more lead-managers these days and fewer managers and participants than before.

It would be a brave and optimistic banker who would maintain that all these variables are going to move in the right direction for the market. Even if they do, the character of syndicated lending has already undergone a change that will be felt for a long time.

Japanese banks once one of the mainstays of the market, are cutting back their participation. As late as last year Japanese banks were willing to take up to 50 per cent of selected individual loans. That proportion has now fallen to around 33 per cent under pressure from the Ministry of Finance in Tokyo. This means that lead managers have to work all the harder to sell participations in loans to non-Japanese houses.

Segment in the interbank market has also undergone a sea-change since the Mexican crisis erupted last August. The Mexican shock prompted several large banks to cut back on their interbank business with smaller institutions. Yet it is these small institutions who rely on such short-term lines to fund their participants in medium-term Eurocredits.

Interbank business has never been highly profitable for big institutions. Cutting back on this business is one way for a large bank to improve its return on total assets and to many large banks with big exposures in the debt-ridden developing world the latter has become an important priority.

In the old oil-boom years large banks were awarded deposits tries themselves have less cash to spare—even Saudi Arabia is forecast by some economists to face a current account balance of payments deficit this year.

Large banks thus have less of a role to play in filtering petrodollars through the money markets to smaller institutions, thereby drawing them into the re-cycling process.

All this means that some retrenchment is inevitable. But how far will it go and how much further will margins rise? At the moment borrowers in Western Europe, the Far East and Australasia can still raise large amounts, albeit at a price. Many have already done so and by late February it was clear that the stampede was by no means over. These borrowers, at least, feel it safer not to wait and see whether the syndicated loan market really is "out for the count."

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**World insolvencies have brought the IMF and other supranational agencies centre stage, as discussed below by a leading Wall Street expert**

## Heightened role as burdens multiply

## INSTITUTIONS

moved quickly to gain agreement for economic reforms with a host of countries including Mexico, Brazil, Argentina, Chile, Hungary, Yugoslavia, Romania, Costa Rica and the Dominican Republic. These programmes have generally entailed severe budget cut-backs, devaluations and the lifting of price controls. Creditors have made the Fund's seal of approval a precondition for providing debt relief and additional loans.

The new wrinkle in many of these rescue efforts is the IMF's insistence that commercial banks pledge a specified amount of fresh money to the debtor before the Fund will lend its own resources. By thus pressuring the banks the IMF is alerting everyone that it alone cannot save cash-squeezed governments which will need some \$700 billion in 1985 to meet their obligations. To keep their economies afloat, the banks, says the Fund, will also have to put up their share. Having pushed banks to lend, the Fund's

reputation is on the line as well, could its programme fail, it could be that much harder to enlist the help of the banks the next time around.

Topping the IMF's agenda was the need for more lendable cash for 1983. In 1982 the Fund disbursed \$6.2bn; in next year loans may top \$12bn. The year is that the IMF could run dry the recession continues, the banks of France and West Germany and some smaller OECD countries apply for loans.

Last month the Fund's Board of Governors approved a package of measures which would increase the Fund's lending capacity. Involved were an increase in members' quota

subscriptions, from SDR 61.03bn to SDR 80.5bn (\$98.5bn) and an expansion of the General Arrangements to Borrow to SDR 17bn (\$19bn).

The critical issue now is that the final approval is required in many countries and is unlikely to be completed in 1983. The U.S. Congress may be particularly difficult. As an interim measure the Fund may be forced to tap private markets. This would be an unprecedented step for the institution, which has until now relied exclusively on subscriptions and loans from its member governments.

In addition, there are no agree-

In addition, there is no agreement as yet on how a larger IMF lending pool would be allocated. The U.S. Administration is proposing that the absolute amount on which each country can draw is to be determined on the same despite the quota increase. This limit would bring little joy to Mexico or Brazil, for example, which are already borrowing up to their limit. More money would be available to new borrowers, however.

Shortly after succeeding Mr. Robert McNamara as president of the World Bank almost two years ago, Mr. A. W. Clausen, former Bank Governor, said that he was "proposing that the Bank streamline its operations and devote more effort to mobilising private money. The global debt crisis gave urgency to these ideas and the Bank is now moving in that direction."

Mr. Clausen has announced a "Special Action Programme" to help countries finish off half-completed projects. A greater share of project costs will be borne by the banks and insurance companies. Existing loans and credits will be accelerated.

Year	Purchases*	Repurchases
1974	3.0	0.5
1975	4.0	0.2
1976	6.0	1.2
1977	3.2	2.8
1978	1.8	4.8
1979	2.1	4.2
1980	4.5	3.2
1981	7.0	2.1
1982	7.0	1.8

\* Excludes regular quota increases.

Source: IMF Treasury's Data

"In addition, the bank's "Structural Adjustment Lending" will be used to help the 30 to 35 per cent limit previously applied to the bank's portfolio in any single borrowing country.

Third, in an effort to increase the participation of commercial banks in development financing, the bank has expanded its co-financing programme. As before, it will participate in projects with private lenders under separate loan agreements. But in addition, it will co-operate in the development of a new type of financing, beginning in which the bank joins with commercial banks in the same loan. Some \$500m is being set aside for this experiment.

Like the IMF, the World Bank faces serious funding constraints. For the current year an \$11.2bn lending programme is envisaged and little real growth is now projected up to 1985.

The argument is standing in the way of new resources for the bank's soft-loan window, the International Development Association, thereby raising serious questions concerning IDA's ability to enter into new commitments.

In order to accommodate the growing requirements of the Third World, the bank may be forced to look again at the Brandt Commission's recommendation to modify the current practice of insuring that all loans are backed by gold or dollar, by reserves. By normal banking standards this 1:1 ratio is considered highly conservative.

Until recently The Bank for International Settlements (BIS) Club has been known as quietest of central bankers, a collector of important information concerning commercial bank lending, a forum for discussions on international monetary and bank regulation and a place to organise swaps among central banks. All of these activities were done quietly and discreetly, away from public attention. Now, however, BIS has been thrust into the limelight, having been called on to provide bridge loans to such governments as Hungary, Mexico, Brazil and Argentina which themselves have been plagued by highly visible rescue packages.

The BIS has been able to

mobitise funds quickly and without undue fanfare. The loans are for generally 6-8 months and repayable when an IMF programme is in place and the borrower has access to Fund resources. Bridging operations are designed to be short-term. The BIS reserves, for example, Yugoslavia's credit application for a three-year period earlier this year. The intention was also to emphasise the bridging function of the loan in contrast to proposals which would assign a more automatic and predictable role for the institution in debt situations, such as that played by the IMF.

The BIS has also come into public view as a result of perceived shortcomings in the 1975 Basle Concordat, an agreement among central banks concerning the respective responsibilities of lender-of-last-resort responsibilities. When the Italian Banco Ambrosiano collapsed last June no one came to the rescue for its Lombard subsidiary, a company mounted on the speculation which might exist in the safety-net, a situation which the BIS itself is under pressure to address.

It is a safe bet that commercial banks will be slowing their lending while official institutions and their agencies will follow the pattern of the last several years. With net private lending having been cut by some \$25bn in 1982 from the previous years' levels and with no significant increases expected, the official institutions cannot totally fill the vacuum. They will have less than the banks once had to lend and they will impose tougher conditions for borrowers.

Mr Garten is vice-president of Lehman Brothers Kuhn Loeb and was until 1981 the senior professor of political economy at New York University.

## Huge increase in Third World debt

CONTINUED FROM PREVIOUS PAGE

economies continued last year, while in Latin America economic output fell for the first time in more than two decades as the continent became enmeshed in the world recession. It is this recession, combined as it has been with very high real interest rates, that really dictated the timing of last year's debt shock. High interest rates added to the debt burden of many of the borrower countries by raising the cost of their debt; the recession in the industrialised world made it harder for them to offset this with higher exports. The debt service burden became crippling and in some cases even began to exceed exports. This was particularly true in Latin America, where according to Morgan Guaranty, the debt service of the borrowing countries last year

look up no less than 125 per cent of net exports. Only a small number of countries are expected for 1983, although this figure assumes that short-term debt is repaid rather than rescheduled.

Other debt indicators also began to deteriorate. Total external debt of the largest Latin American borrowers grew last year to 259 per cent of their exports; in 1980 it had been only 150 per cent. In 1981, current account deficits widened markedly to 33 per cent of exports in 1982 from 31 per cent in 1981 and 22 per cent in 1980. In 1981, with hindsight for commentators, the situation in the big banks which are now having to cope with this crisis should have seen it coming. That they did not is largely because few had been using the indicators which predicted that interest rates

would stay as high as they did despite last year's decline in inflation. However, the European rates stand at around 9 per cent while inflation in the U.S. has sunk to less than 4 per cent and seems poised to drop even further with the fall in oil prices. Many banks and borrowers also assumed that the world economy would begin to recover last year instead of spiralling deeper into recession. The mistake which has severely aggravated the debt crisis. Much of the increase in bank lending to developing countries since the end of 1978 has been on the form of short-term loans. The form of short-term credit that this is a safer form of lending than medium-term credit as it can be unwound quickly if trouble arises.

**Short-term lending to develop-**

ing countries rose by about 30 per cent a year between the end of the 1960s and 1982, and only increased the vulnerability of both banks and borrowers to the onset of the debt crisis. The borrowers were hit by a sudden reduction in the willingness of lenders to roll over short-term loans, while lenders were unable to withdraw such facilities all at once for fear of aggravating the liquidity squeeze on the borrowers.

The methods deployed by leading banks, world governments and the International Monetary Fund to deal with the problem have been described elsewhere in this survey. Meanwhile, however, most commentators are agreed that solid progress will be made in rehabilitating the stricken debtors only if they are able to pay off their debt on the road to recovery.

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Citicorp Overseas Finance Corporation NV		Comision Federal de Electricidad
Compagnie Financière de Paribas	Crédit Foncier de France	Crédit Lyonnais
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First Chicago Overseas Finance NV	Gaz de France	Georgia-Pacific Finance NV
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IBM World Trade Corporation	IC Industries Finance Corporation NV	Instituto de Crédito Oficial
Inter-American Development Bank	International Bank for Reconstruction and Development	
IPF (Illinois Power Finance) Company NV	Republic of Ireland	Malaysia
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Montana Power International Finance NV		Mortgage Bank of Finland Ltd
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Pennzoil Overseas Finance NV	Province of Quebec	Red Nacional de los Ferrocarriles Españoles
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Société Nationale Elf Aquitaine		Sociétés de Développement Régional
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Southern California Gas International Finance NV		Kingdom of Spain
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Salomon Brothers International	Svenska Handelsbanken
S. G. Warburg & Co. Ltd.	Post- och Kreditbanken, PKbanken
Skandinaviska Enskilda Banken	

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## INTERNATIONAL CAPITAL MARKETS IV

Paul Taylor writes from New York on prospects for America's financial sector

## Fed views hearten Wall St.

THE U.S. credit markets stood at the crossroads—like the U.S. economy itself. The complex factors affecting the market's performance rest in the balance. What almost certain is that the motor which drove the bull rally in the second half of 1982—the sharp decline in interest rates—is over.

Over the past 12 months the Federal Reserve Board's discount rate has fallen by 8.5 percentage points to 8.5 per cent, the Fed funds rate by 4.9 percentage points to 8.25 per cent and the prime rate by 6.5 percentage points to 10.5 per cent. Most of that decline has come within the past eight months. In July 1982 the prime stood at 16.5 per cent and the discount rate at 11.5 per cent.

No Wall Street economist is currently predicting a repeat performance in 1983. At best most economists see a further slight decline in U.S. short-term interest rates this year but predict that the decline will be uneven and punctuated by temporary "hiccups" as economic recovery takes hold.

## Confidence

Thus the credit markets started 1983 with longer term promise but short-term uncertainty. Indeed it is only within the last few weeks that they have regained any degree of confidence. Only that recently have Treasury bill rates longer term government bond yields and corporate bond prices returned to their levels of late last year. The market has already experienced one "hiccup."

Behind the uncertainties of the market lie fundamental concerns about inflation, the Federal budget deficit, monetary policy and the pace and breadth of the long-awaited economic recovery.

Over the past month a number of factors have come together to ease those concerns, at least for the present. First and foremost was probably the Congressional testimony of Mr. Paul Volcker, the Fed chairman, in mid-February when he set out both the Fed's monetary targets for 1983 and confirmed the relatively new operating flex-

ibility which the Fed has adopted in its stewardship of credit policy.

Chairman Volcker made it clear that the Fed considers that the basic money supply measures, M1 and M2, have been distorted by regulatory and institutional changes such as the new bank money market rate current accounts and that the Fed will therefore be paying more attention to the

## U.S. CREDIT MARKETS

broader M3 measure, currently well below target, and other factors.

The priorities which the Fed appears to have set through the policy-making Federal open market committee are to continue the fight against inflation while ensuring that its actions do not choke off a still infant recovery.

Mr. Volcker actually said nothing particularly new. But he did highlight the operational dilemmas facing the Fed. In particular he signalled clearly that he believed interest rates did have room to fall further—indeed that such a decline was essential to the U.S. domestic recovery and the health of hard-pressed less developed countries. But he indicated that the Fed could not, for the moment, afford to be seen to be leading the way to lower rates because such a move might be interpreted as weakness on the inflation front.

The Fed chairman also made it clear that U.S. fiscal policies must be brought more into line with monetary policy if market confidence is to be maintained.

In a nutshell Mr. Volcker had summarised the often diverse fears and aspirations of the U.S. credit markets. His testimony, and other comments which followed were broadly read as positive, accommodative without the threat of excess, and constructive.

One interesting feature of Wall Street today is that the credit markets are probably no

clearer than they were six months ago about how to anticipate Fed actions—but they are becoming more trusting by degrees.

The weekly money supply figures, after months of Fed hedging, no longer send shivers through the credit markets and while rumours of a discount rate cut still send bond prices soaring there is less surprise when it fails to happen.

The Fed has been aided immensely in the past month in its "educative" programme by several other factors. First, lower oil prices have been warmly embraced by the credit markets which see, far more clearly than the equity markets, a direct correlation between lower oil prices and lower inflation.

This factor alone has all but banished the market bears who six months ago were warning that an over-accommodative Fed would spell the prospect of backsliding in longer term bond rates at some stage.

In addition, while further signs of an economic upturn emerge almost daily, nothing has happened to change the credit markets' perception that this recovery will be relatively slow and sickly—meaning that private credit demand will remain weak.

Indeed, were the recovery to be more vigorous than presently anticipated, some in the markets now argue that any upsurge in private credit demand could be offset by a reduction in the expected \$200bn Federal budget deficit and therefore in Treasury borrowing needs.

Looked at clinically the markets do indeed face a severe test this year while Treasury borrowing requirements are expected to reach record levels, corporate longer-term debt issues are expected to soar under the pressure of adjusting balance sheet liabilities.

Salomon Brothers estimated at the start of 1983 that net new credit demands in the U.S. will climb by between \$50bn and \$80bn this year to \$450bn or \$480bn from the \$400bn pace of the past two years.

Although more than half the funds raised in the U.S. credit market this year will still be destined for Treasury coffers, the private sector is under

increasing pressure to substitute longer-term debt for outstanding short-term borrowings. So far this process is most evident in the equity market, which has absorbed a phenomenal increase in new equity securities so far this year.

In the credit markets some indication of the pent-up demand is given by the \$32bn backlog of issues sitting on the Rule 415 shelf ready for issue when market conditions are most favourable.

Although new corporate debt issues are running ahead of 1982, volume is still under \$1bn a week. At the start of the year Salomon Brothers estimated the gross new public offerings of corporate bonds this year at around \$65bn up by \$25bn over 1982. This volume of new issues will require substantial increases in bond purchases by domestic and foreign private and institutional investors.

Nevertheless a majority of Wall Street is for the moment in a confident frame of mind. A few weeks ago Salomon's Kaufman was able to declare that "the list of favourable factors now working in the fixed income market heavily outweigh the negative forces."

## Flexibility

But others are holding their verdict. In particular they are waiting for more examples of the Fed's new flexibility in action, watching like hawks for an inflationary signal with a kind of "won't get fooled again" nerve.

Interest rates still hold the key to the market's performance this year. While Mr. Volcker has categorically denied that rates are being targeted they are likely to be less volatile than in the past.

Ironically perhaps, Mr. Volcker's term in office runs out this August and although Wall Street would probably welcome him back, Congress and the Administration may have other views. A change in leadership at the Fed at the same time that the economy comes out of a much deeper than expected recession in the market place today.

## Less call as cash pressures ease

FOR THE moment the boom in U.S. commercial paper has subsided. Short-term credit demand has slackened in the past six months as immediate cash pressures have eased and corporate treasurers have turned their attention towards lengthening maturities and building more balanced liability structures.

Since reaching a peak in July last year, when over \$180bn of commercial paper was outstanding, the volume has edged back to around \$160bn at the start of the year and around \$160bn today. Even this, however, represents a massive increase compared to just \$60bn outstanding a little over five years ago.

The decline since mid-1982 reflects both the easing in corporate short-term financing needs as inventories and costs have been pared back during the recession and the increase in the U.S. debt and equity markets which has made longer-term financing easier.

The contraction to date has largely been in the non-financial category which fell from \$58bn in July last year to about \$45bn. The process of extending corporate debt maturities is still far from complete, as the \$32bn backlog of Rule 415 "shelf registrations" alone bears witness.

As a result the commercial paper market is likely to contract further, probably during the third and fourth quarters and generates new short-term financing requirements of its own. The size of the contraction is difficult to predict, although most Wall Street investors believe paper could drop by a further \$10bn to \$15bn before the next upsurge begins.

Although the commercial paper market has been in existence for about 100 years it has grown dramatically in the last decade, fuelled over the past two years by a reluctance on the part of borrowers and investors, to enter into long-term commitments during a period of high interest rates and inflation uncertainty.

The surge has also been bolstered, however, by the emergence of overseas companies eager to tap the market for dollar funds. Foreign commercial paper now represents about 10 per cent of the market. The volume issued by overseas companies, principally banks, has increased from \$7.6bn in 1980 to around \$13.6bn in 1981 and \$15.7bn last year.

"There has been a very sizeable growth in the market for foreign paper and it has not come off the top," says Mr. Ronald Marcus, a vice-president in Salomon Brothers' commercial paper finance group.

The U.S. market offers a number of particular attrac-

All Issues	COMMERCIAL PAPER OUTSTANDING (\$bn—unadjusted)					Non-financial companies		
	Total	Financial companies			Direct	Total Domestic Foreign		
		Total	Dealer placed	Foreign		Total	Domestic	
End-1982	162.4	118.2	34.8	24.4	18.4	83.4	44.2	38.9
July 1982	180.7	104.4	26.8	n/a	n/a	77.6	44.8	n/a
End-1981	161.1	111.9	30.4	n/a	n/a	81.5	49.2	n/a

Note: The Federal Reserve Board changed the base on December 1, 1982. The changes added about \$6bn to total outstanding and about \$4.1bn of paper earlier listed as dealer placed was moved to the directly placed category. In addition the Fed. started reporting domestic and foreign paper separately.

Source: Federal Reserve Board of New York

tions to the overseas issuer. First and foremost is probably price. Foreign banks issuing in the U.S. market have been able to command rates one quarter of a point less than London Interbank Offered Rate (Libor) to still many other borrowing rates are tied.

Indeed since 1974, when Electricite de France (EDF) first tapped the market, a growing number of foreign issuers have made their way to the U.S. commercial paper market.

Today there are dozens of foreign companies regularly tapping the U.S. market. Last year saw a further broadening of the overseas contingent. Among the new issuers were Britain's Midland Bank, with an initial commercial paper offering of \$500m, and banks like the Bank of New South Wales.

Mr. Roger Vasey, chairman and president of Merrill Lynch's money markets group, said at the time of the New South Wales launch: "It is a major move into the U.S. capital markets and reflects the growing ability of the commercial paper market to meet a variety of financing requirements."

Mr. Stuart Fowler, general manager of the bank, explaining the move, said it was made because it is "the most advantageous means of securing an additional source of funds at low cost."

French banks and major industrial concern still account for the lion's share of overseas issues—perhaps as much as 25 per cent. This fact highlights a second attraction of the market—its comparative breadth against overseas domestic credit markets. Issuing in the U.S. market does not put pressure on a foreign company's domestic market, and in some cases, suggests Mr. Marcus, may be actively encouraged by a foreign government.

The initial "vetting" procedure by a U.S. credit agency may alarm some prospective overseas participants but the U.S. market does not often find the financial cost saving more than outweighs the disadvantages.

For those overseas, and

domestic borrowers lacking "a name" to back the paper, letters of credit programmes and bank credit lines often provide the answer. Such "two name" paper is a growing feature of the market, which nevertheless is still a strictly "high quality" one. At the end of last year about \$13.8bn of

## U.S. COMMERCIAL PAPER

paper outstanding was backed by letters of credit or other third parties.

Of the 1,200 companies currently tapping the market—about 500 of which are new to the market since 1974—some 85 per cent have top A1/P1 ratings on their commercial paper. Letters of credit, where a U.S. bank or other agency "substitutes" its credit rating for that of the borrower, are an important means for lesser ranked companies to tap the market.

In some cases it is the only way a borrower can enter the market. Japanese companies, for example, are increasingly frequent users of the U.S. market but Japanese banks are forbidden to tap the market directly. Therefore support for a Japanese company issue is the only way a Japanese bank operating in the U.S. can earn the fee income available to its international counterparts.

Another changing feature of the U.S. markets is the declining proportion of paper directly issued by borrowers. In 1977 the figure was about 68 per cent; today it is closer to 51 per cent. This is partly a reflection of reduced borrowing requirements of some of the market's major players but also reflects the efficiency of the dealer distribution system, particularly for smaller non-financial company issues.

The major dealers in the market are Goldman Sachs, A. G. Becker, Salomon Brothers, Merrill Lynch, First Boston and Lehman Brothers—with Morgan Stanley a more

recent arrival. Their principal job is to effectively "underwrite" an issue and to package and sell commercial paper to prospective purchasers.

Those purchasers are also changing. Corporations have become less active purchasers as their cash reserves have dwindled.

The U.S. savings and loan thrifts have, however, boosted their position in the market, becoming much more active buyers, while the money market funds, whose commercial paper purchases soared in the late 1970s to account for about one third of outstanding paper last year, have entered a period of retrenchment.

This change partly reflects the impact of regulatory changes, including the impact of new money rate current accounts which the banks and S & L have been able to offer since mid-December. This has drained funds from the money market funds and forced them to trim their commercial paper purchases. Nevertheless, Mr. Marcus believes the funds "will continue to be a significant factor in the market."

On the delivery side the securities industry appears to have lost a battle to stop banks entering the market as dealers after the Fed ruled that commercial paper was not a security. As a result some of the banks, most prominently Bankers Trust, which now has about 15 clients, have been moving into the commercial paper market as distributors.

That process is likely to continue as deregulation of the financial services sector proceeds for the moment the securities industry says it is not unduly worried about the new competition, relying upon what it sees as its fundamentally more efficient and sensitive distribution system.

Despite these changes—indeed perhaps because of them—commercial paper is likely to continue to play an important role in U.S. and overseas corporate short-term borrowing requirements. It is a cheap and efficient means of raising funds and the only real question facing the U.S. market at present is when the next big upsurge will come.



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### FIRST CITY NATIONAL BANK OF HOUSTON

#### Financial Position (in Thousands)

December 31, 1982	
Total assets	\$9,921,239
Loans	5,032,506
Deposits	7,908,839
Shareholder's equity	411,829

### FIRST CITY BANCORPORATION OF TEXAS, INC.

#### Financial Position (in Thousands)

December 31, 1982	
Total assets	\$16,567,101
Loans	9,290,718
Deposits	13,354,883
Shareholder's equity	887,098

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Handwritten signature: J. H. [unclear]

## INTERNATIONAL CAPITAL MARKETS V

This and the following two pages carry reviews of the major international bond markets, ranging from Europe to Japan

# Large market too important to be ignored

TODAY, 20 years after its inception, the Eurodollar bond market is a world-class market too important to be ignored by any major international borrowers or investors.

Last year the new issue volume of Eurodollar bonds reached the \$40bn level, a rise of more than 80 per cent year-on-year and a record. According to the latest figures compiled by Salomon Brothers, this Eurodollar bond volume accounted for three-quarters of the total 1982 jump in new issues in the international bond markets, which rose by 51 per cent to \$71bn.

Last year saw the Eurodollar bond sector continuing to produce a number of innovations and a record of American Telephone and Telegraph made its debut, the Government of Canada launched a \$750m issue and the fever for devices such as warrants (options to buy additional notes), zero coupon bonds (issue without a coupon which provides the investor with a potentially attractive capital gain) and partly-paid issues (where only a portion of the total bond price is due immediately, the balance being put off several months) presented investors with an increasing array of opportunities.

This year got off to an impressive start with a \$1bn record-breaking floating rate note for the Kingdom of Sweden; this was subsequently increased to \$1.2bn.

These developments together with the Eurodollar bond market's track record of resilience during periods of extraordinary interest rate volatility combined to ensure the market's position as third largest bond sector after the U.S. and Japan. Third largest it may be, but it has also proved the most innovative.

The market enjoyed an unexpected rally in November and December last year, with interest rates declining, bond prices rising and bond houses pocketing profits hand-over-fist. The last two months of 1982 were, in the view of many, the best the market has had in its 20 years.

The euphoria could be seen around Christmas, when some U.S. investment banks handed out staggering bonuses, including multi-million dollar bonuses for a select few senior executives in New York.

The market's somewhat self-conscious sense of achievement was also reflected by the year-end comments from luminaries such as Credit Suisse First Boston's Hans-Joerg Rudloff and Deutsche Bank's Karl Miesel. Mr Rudloff referred to the record new issue volume and said it resulted from a "progressive market which is adept in syndicating deals in all their different forms." He went on to state the Eurodollar market had "certainly come of age."

Herr Miesel and others detailed the market's activities and the consensus view at year-end was that the Eurodollar had become a "true alternative" to the U.S. market.

The Eurodollar has demonstrated impressive growth in

### EURODOLLAR BONDS

ALAN FRIEDMAN

recent years and a degree of innovative flair which has inspired foreign markets but has the market truly "come of age?"

Two aspects of the market—one structural and the other environmental—remain at times problematic, even embarrassing. These are the unregulated new issue system which continues to result in "boom and bust" behaviour of a sometimes extreme kind and the market's cult of personality, which has resulted in patterns of behaviour which one veteran banker describes as "unprofessional."

The Eurodollar bond market is not controlled by any national monetary authority. There are no queues of borrowers, no particular requirements of a uniform nature, no set ceilings for issue size and not even any registration demands for investors—the bonds are unregistered "bearer" instruments.

As a result new issue managers have an unparalleled amount of freedom; their only constraint is their own judgment as to whether they can find sufficient underwriters and ultimate buyers of bonds to make an issue work.

When encouraging economic data came flashing over the new issue manager's economic

LEADING CURRENCIES IN NEW INTERNATIONAL BOND ISSUES (market share per cent)				
	1979	1980	1981	1982
Dollar	35.4	41.9	60.0	64.0
DM-mark	23.3	24.1	5.5	7.5
SwFr	25.2	19.0	17.9	15.2
Yen	5.0	4.4	6.5	4.9
Sterling	0.4	2.9	3.0	2.0
Other	7.8	7.7	7.1	5.8

Source: Salomon Brothers.

news screen, he begins chatting with his colleagues about whether the market is ripe for new issues. A promising state-ment about interest rates from Paul Volcker, chairman of the Federal Reserve Board, or perhaps a sharp fall in U.S. money supply figures. These are the kind of news flashes which give heart to Europe's bond managers.

As the market begins to react to such information, it may also begin dialling clients, corporate or sovereign. "I think we could go with that \$100m Eurobond you were thinking of," comes the voice over the wire. And the client may agree.

What has happened? In the vernacular of the Eurodollar, a new issue "window" has opened. The coast is clear for new issues.

Unfortunately, there are problems with this magical window. First, it tends to result in a flood of new bonds which in turn leads to another Eurodollar market phenomenon known as "indigestion." Too much new paper, too few investors—the result is an overhang of unsold bonds and falling prices.

Another problem is that as new issue managers become excited (on their own behalf and on behalf of their clients), they may drive for lower and lower coupons (known in the trade as "aggressive coupons," anticipating a continuing decline in interest rates. This is fine when rates are in a downward spiral but when the decline stops the anguish begins. New issue managers have been burned time and time again not only by an overhang of unsold bonds but an overhang of bonds which have been so aggressively priced as to be unsaleable for a while.

Take the example of the famous Texaco 9 1/2 per cent

\$150m seven-year issue launched by Credit Suisse First Boston in January. Several bond houses had been competing for the deal and the bids got lower and lower. Credit Suisse First Boston won the lead-management but priced the Texaco bonds so aggressively that they suffered in subsequent

weeks—they were very difficult to place, and traded down to a discount of about 90 points from the issued price of 99 1/2.

At the start of February the Eurodollar bond market found itself sitting on billions of dollars of unsold paper. The "boom and bust" cycle had run its course and the new issue "window" slammed shut.

A second argument advanced by the Eurodollar bond market's detractors is that it has not come of age because it is still in the grips of a "cult of personality." There are most definitely Eurodollar "stars" such as CSEB's Hans-Joerg Rudloff or European Banking Company's Stanislas Yassukovich. Among the dealers in the market people like Goldman Sachs's John Keogh and Merrill Lynch's Dante Montalbert are well-known names.

But are these people more than just prominent participants in what is, after all, a rather small world? Critics of the Eurodollar market might argue they are. Moreover, the lure of \$1m annual salaries for partners of Lehman Brothers or \$100,000 packages for top traders at major U.S. houses must be a powerful one.

In the final analysis it would appear that criticisms of the market based upon its personnel patterns or its lack of regulation are almost irrelevant. The fact is that the Eurodollar bond market offers an extraordinary case study of capitalist market forces in action—boom and bust, profit and loss, etc. At the age of 20 the Eurodollar bond market is not yet fully mature but it is certainly fully functioning.

# Vital tool in funding budget deficits

### JAPANESE BONDS

ALAN FRIEDMAN

summer and it is what happened last month, when a ¥300bn (\$1.23bn) 10-year Government bond issue was cancelled after disagreements between underwriters and the Ministry of Finance.

The underwriters refused to accept the same terms as those on the January issue—a 7.5 per cent coupon at a price of 98.50, to yield 7.76 per cent—and said the terms were too low.

Such a refusal by Japanese underwriters is rare. When it happened in mid-1982 the immediate result was an increase on the coupon paid to 8 per cent. The underwriters balked last month because the yields on outstanding ("seasoned") 10-year Government bonds were running more than 25 basis points above the proposed 7.76 per cent yield of the scheduled February issue. The Ministry of Finance, not

wishing to see Japanese interest rates rise at a time when it was hoping to see them follow U.S. rates downward, was adamant about maintaining the January terms.

The conflict can be more easily understood when one considers the intricately structured nature of Japanese interest rates. Bankers in Tokyo sometimes refer to the interest rate structure as a "four-and-a-half mat room," the smallest possible size of a "tatami" or straw-mat room in Japan. This metaphor is illustrated by the traditional (although not official) relationship between the 10-year new issue coupon on Government bonds and the level of the Japanese long-term prime rate.

The differential is usually 0.9 per cent, so that when the long-term prime is 8.4 per cent the new issue coupon tends to be 7.5 per cent.

The cancellation of the ¥300bn February Government bond exercise means that the Government now needs to raise ¥1,100bn during March. The March issue is likely to be ¥8, rather than the ¥8.50 in

January, thus raising the yield slightly.

Negotiations have been under way for the March issue and they have been tough. The exercise could go much more smoothly, however, if Japanese rates decline sufficiently and prices of seasoned Government bonds increase, thus reducing yield levels. If this happens the Ministry of Finance will have less of a problem with its underwriters and can insist upon maintaining the 7.5 per cent coupon level—the differential between seasoned paper and the new issues will have been reduced from 25 basis points. It is generally assumed that a yield differential of 15 basis points or less does not pose a problem.

Meanwhile, the Government has embarked upon a new scheme modelled loosely on the West German "Schuldschein" concept of private placements by the Government. Under this scheme the Finance Ministry can place 15-year floating rate notes with life insurance companies and other institutional investors and the yield can be higher than that on the normal 10-year Government bonds.

Aside from such domestic Government issues, the Japanese authorities are also considering the issue of as much as ¥1,000bn of so-called "Nakase" bonds on the international capital markets. Japanese bankers predict this will take some time to discuss internally and it could be next year before such bonds are launched, if at all.

The bonds are named after Prime Minister Yasuhiro Nakasone and would represent the first time the Japanese Government had borrowed abroad in the name of the central government in well over a decade. In recent years the issue of such bonds has always been viewed as a last resort because of the "loss of face" inherent in coming to the world's capital markets in the name of the Government.

There are also political problems with such bonds. Opposition parties could make hay of the idea and accuse Mr Nakasone of not being serious about reducing the budget deficit.

Instead of going ahead with such a plan it seems more likely that the Government will simply boost the amount of government-guaranteed bonds overseas for agencies such as the Export-Import Bank and the Japan Development Bank. This year the total of such guaranteed bonds is expected to increase to ¥400bn from a level of around ¥250bn in 1982.

The other Japanese bond market which figures prominently in the Tokyo capital market is the sector where foreign borrowers can issue domestic bonds, known as Samurai bonds. Volume has risen significantly over the past couple of years, from ¥500bn in 1981 to more than ¥700bn last year.

Most important, the Ministry of Finance last autumn negotiated a package of reforms known as a "liberalisation" of the Samurai bond market. Unfortunately the weakened state of the yen versus the dollar tended to inhibit the liberalisation in none the less in place now and the market has improved.

The package of reforms is viewed by the securities industry as a constructive move. It includes the following major elements:

- The rule of only one issuer per quarter for a foreign corporate borrower has been abolished and private companies will be able to compete for a place in the new issue queue along with sovereign and supranational borrowers.
- The new issue queue will be reviewed every quarter.
- A Japanese bond rating service is being introduced to achieve a system of Single, Double and Triple A-rated deals.

● Supranational and Triple A-rated foreign companies are allowed, along with Triple A sovereign names, to issue ¥200m of bonds at a time. Lesser rated borrowers are restricted to a ¥150m ceiling per issue.

This is all rather encouraging for the Samurai market but other factors such as currencies, interest rates and the lack of an active secondary trading sector can still pose problems. The total outstanding volume of Samurai issues, ¥2,500bn, is still too small to allow for much of a secondary market; only World Bank bonds are traded actively.

These factors notwithstanding, the Samurai market and the Government bond market are attracting an increasing number of foreign investors, lured by the prospect of currency gains and perhaps even the interest rate level. If compared for example to the lower level of Swiss franc bonds. Once the Japanese Government takes care of its deficit funding requirements, bankers hope for a more reasonable Government bond sector.

#### NEW ISSUE

These Bonds having been sold, this announcement appears as a matter of record only.

FEBRUARY 1983

U.S. \$50,000,000

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Citicorp International Bank Limited

County Bank Limited

Crédit Lyonnais

Kredietbank International Group

Manufacturers Hanover Limited

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S. G. Warburg & Co. Ltd.

Yamaichi International (Europe) Limited

Algemeene Bank Nederland N.V.

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Bank Leu International Ltd.

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Bankers Trust International Limited

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Continental Illinois Capital Markets Group

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Daiwa Europe Limited

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Dresdner Bank

Effektbank-Warburg

First Chicago

Fuji International Finance

Genossenschaftliche Zentralbank AG

Girozentrale und Bank der Österreichischen Sparkassen

Kleinfeld, Benson

Handelsbank NW (Overseas) Ltd

Hessische Landesbank

Kidder, Peabody International Limited

Kleinwort, Benson

Lazard Frères et Cie

LTCB International

Mitsubishi Bank (Europe) S.A.

New Japan Securities Europe

Norddeutsche Landesbank

Sal. Oppenheim Jr. & Cie.

Pierson, Halding & Pierson N.V.

Schoeller & Co.

Schröder, Münchmeyer, Hengst & Co.

Société Générale de Banque

Sumitomo Trust International Limited

Svenska Handelsbanken Group

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#### NEW ISSUE

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FEBRUARY 1983

U.S. \$75,000,000



## Nordiska Investeringsbanken

(Nordic Investment Bank)

10 1/4% Notes Due 1988

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## INTERNATIONAL CAPITAL MARKETS VII

# Kohl victory should help

A YEAR ago the six-month Euro D-Mark deposit rate stood at 9½ per cent. At the beginning of this month the same rate was hovering at around 5½ per cent.

The D-mark foreign bond market's track record over the past year reflects the drop in interest rates—last year saw a total new issue volume of DM 11.6bn (compared with DM 5.1bn in 1981). Indeed the market has come a long way in the past year and an even longer way over the past two years. In early 1981 the market was struggling against a steep rise in interest rates and was hardly capable of absorbing in excess of DM 1bn of issues a month.

Nowadays this amount of new issue volume does not usually cause an eyebrow to be raised. The latest four-week new issue calendar, which runs until March 18, totals DM 1.87bn.

A seven-week new issue calendar announced last November totalled nearly DM 3bn. Of course November-December 1982 period represented halcyon days for

almost every sector in the Eurobond market but in West Germany it certainly boosted confidence among both banks and investors.

### D-MARK BONDS

ALAN FRIEDMAN

The opening months of 1983 have been somewhat less heartening. Foreign investors who figure prominently in this market, have tended to favour the Frankfurt stock market over bonds but there has been a sprinkling of foreign interest.

Uncertainty over the outcome of the recent federal election was an inhibiting factor however. The new issue calendar of DM 2.89bn, which ran from January 4 to February 14 of this year was not an easy exercise. After postponements for Spanish Telephones (DM 100m), Canadian Imperial Bank of

Commerce (DM 100m) and American Express (DM 100m), the actual total came to DM 2.59bn.

When the D-mark is relatively weak against the dollar this tends to inhibit investment in foreign bonds as well. Foreign investors are attracted in part by the prospect of an exchange gain and thus prefer the market when the West German currency is on the rise.

With the outlook for U.S. interest rates suggesting some downward movement, German bankers are hoping for better times. The average yield on 10-year D-mark foreign bonds ranged between 7½ and 9 per cent, depending on quality, a fortnight ago (in early March) and bankers were hoping to see levels decline. Domestic 10-year bonds were yielding 7.80 per cent at the time.

Lower quality or riskier names tend to pay a premium—witness, for example, the 9 per cent coupon paid on a DM 100m five-year issue in February for South Africa's iron and steel corporation—Iscon.

By the same token a coupon for a well-known and desired issue can be much lower. Heinz, the U.S. food products group, paid 9½ per cent on a DM 50m five-year private placement during the same calendar as the Iscon bond issue.

The prospect of a buoyant D-mark bond sector depends to a very great extent upon the performance of the U.S. Treasury bond market, the relative strength of the D-mark itself and the follow-through on interest rates fluctuations from one market to another. Traditionally the D-mark bond sector's activities are far less volatile than those in the dollar market. A one-point rise in Eurodollar bonds could be mirrored by a ½ to 1 point increase in West Germany.

With the decisive victory of Chancellor Helmut Kohl in the recent election there should be some froth in the Deutsche Mark sector for several weeks at any rate. Beyond the spring the outlook remains uncertain.

# Brisk trade in sheltered notes

IT IS a measure of the recovery in equities over the past nine months or so that shares are outperforming bonds on the Dutch market at a time when the bond sector itself is healthy plump.

One leading Amsterdam trader has described the Euro-guilder market as "good but still with room for improvement." Outstanding volume at the end of February, perched at between F1 4.5bn and F1 5bn, would seem to confirm this view.

But even if the pace could grow hotter before a standard issue would come to include the provision of asbestos gloves, trade is undoubtedly brisk. A Swedish Export Credit Corporation bond announced by ABN on March 2 was the eighth such issue this year. An earlier KLM equity-linked bond, also led by ABN, excited extra-ordinary interest—largely because of its share connection—while in the area of state loans a Government bond priced at 7.5 per cent attracted subscriptions worth F1 5bn within a week at the end of January.

No further equity-linked bonds are expected in the Netherlands this year. The

Government, though, has already been back in the market and can be expected to remain there for much of the rest of the year. Normal straight bonds, meanwhile, show no signs of a decrease in volume.

The public market is an ancient phenomenon in the Netherlands and public issues were listed on the Amsterdam Stock Exchange in the 1630s. The first Euro-guilder note was issued by ABN in 1969 and the growth in trade from then until about 1979 was steady but unspectacular. High inflation, soaring interest rates and industrial stagnation, as elsewhere, triggered off the Dutch bonds boom that has continued ever since.

Despite this, Dutch banks are the first to admit that the guilders share of the international market is "peanuts." It represents good business for those involved but is unlikely to occupy more than a modest chapter in the history of the Euromarkets.

To some extent the potential of the Dutch guilders market is limited by the constraints imposed by the central bank (on the size of issues). F1 150m is the maximum permitted for a Euro-issue linking domestic

investors and supranationals like the World Bank, while F1 100m is the limit for a foreign issue. If domestic and supranational interests come together more than once in a given year they are, moreover, restricted to F1 100m for second and subsequent issues.

Euro-guilder notes are very discreet documents. They are private. There is no listing and no prospectus. Between 200 and

### GUILDER BONDS

WALTER ELLIS

300 invitations are sent out to banks and brokers throughout Europe and business is handled, Swiss style, as between friends and confidants.

The purely domestic market has fewer restrictions. The recent World Bank issue, for example, was looking at F1 500m and had a coupon of 8 per cent—somewhat above the recent going rate for foreign and mixed bonds.

Leading the Euro-guilder pack is, unquestionably, ABN,

the largest and most traditionally foreign-orientated bank in the Netherlands. Coming up fast, though, is Amsterdam-Rotterdam bank (Amro), which has been working assiduously on its image as an international institution for at least the last five years. Mees and Hope and Pierson Helderling and Pierson, respectively the merchant subsidiaries of ABN and Amro, are also deeply engaged in the market.

A high yield is forecast for this year in the guilders note sector, with interest rates of between 7.5 per cent and 7.75 per cent. Investors are unwilling to take long bonds, so bullet maturities have tended to settle between one and two years. This means that after only two years of a five-year issue bonds are already a paper commodity, with interest rates the key to marketability.

Dutch state loans make and unmake scarcity of paper. In February, when the government, replete with its F1 5bn, did not come to the market, the commercial guilders market filled the vacuum. The two co-exist satisfactorily, however, and thus far there has been room enough for all.

The international debt crisis has posed some pertinent questions for the authorities

# Lessons to be learnt from crisis

WHEN THE world's central banks and supervisory authorities come to conduct a post-mortem on the recent international banking crisis and the effectiveness of their emergency fire fighting measures, one question which will be high on the agenda is their own role in the affair.

In particular, should the authorities share some of the blame for not spotting the tell-tale signs of the looming crisis at an earlier stage? While it is always easy to be wise with hindsight, a review of the effectiveness of the apparatus for supervising the world's banks should provide some useful lessons for the regulators and enable them to prevent similar crises recurring.

The purposes of bank regulation is not to remove all the risks in international banking. That would make it too easy for bankers to absolve themselves of their commercial responsibilities. On the other hand, bank regulators have a duty to see that everyone is playing by the same rules. As recent events have shown, they have a long way to go on this score.

There is no common definition of what is meant by bank capital by the various regulators around the world and even less as to what sort of capital ratios international banks should observe. The same goes for provisions for bad and doubtful debts. The practices of banks vary widely within countries and even more so between banks from different countries.

Ideally, all banks with the same sort of loan to a sovereign borrower facing financial problems should treat such loans the same way in their accounts, since the underlying asset quality is the same, but this rarely happens.

Many bankers argue that given the differing backgrounds and ownerships of the 1,000 or so international banks, it is unreasonable to expect—and in fact does not matter much—if banks adopt an inconsistent line towards common problems.

In the case of countries like Mexico, bankers would like more information, particularly on short-term indebtedness, while in the case of Banco Ambrosiano bankers argue that the authorities should have taken more care in ensuring that the group was effectively supervised in the many jurisdictions around the world where it operated.

Bank supervisors are sensitive to criticism that they have failed to do their job properly and allowed the current international banking crisis to develop.

They point to the work of the standing committee of banking supervisory authorities established under the auspices of the Bank for International Settlements in the mid-1970s. The first task of this committee which has always been headed by a senior Bank of England official, was to ensure that no foreign operation of a bank operating internationally escaped supervision.

This principle was enshrined in the Basle Concordat, which sets out the respective responsibilities of the parent bank's

supervisory authorities and the supervisory authority of the country in which a branch or subsidiary of that parent bank operates.

For reasons best known to themselves the central bankers who wrote the Concordat, stressed that its principles related to supervisory responsibilities and not lender of last resort responsibilities for international banks. The authorities argue that there can be no guarantee that they will automatically undertake to stand

### SUPERVISION

WILLIAM HALL

behind any banking institution they supervise. None the less, bankers believe that there is a moral commitment by supervisors to stand behind the foreign operation of a domestic bank if they are standing behind its local operations.

Many bankers argue that the Basle Concordat is an unnecessarily woolly document and should define the authorities' responsibilities more clearly. In particular, some senior bankers believe that it should be redrawn to cover the question of the responsibilities of lender of last resort for banks which run into financial difficulties in the international arena.

Central bankers are reluctant to expand on their cautious statements over the years about their willingness to act as lenders of last resort. They insist that the means of support for international banks in trouble are available and will be used if felt appropriate. But many bankers want more guidance about the kinds of situations where support will be forthcoming by central banks.

Another area where there has been some criticism of the regulators is in the comprehensive-ness of their supervisory apparatus. The Basle Concordat—the main plank of international supervisory co-operation—initially only covered the Group of 10 countries and Luxembourg and Switzerland. Since then supervisors from offshore centres have given their support plus a growing number of banking supervisors from Third World countries. The Basle committee argues that as a result of its work no international bank of any consequence escapes supervision. Others are less sanguine.

A key element in the supervisors' confidence is the adoption of the principle that supervisors should look at a bank's business on the basis of consolidated accounts, in order to provide a global picture of a bank's activities.

Consolidated data give the supervisor a centralised oversight of an international bank's overall business so that risk exposure and capital adequacy can be judged on the basis of its worldwide operations.

The Basle committee once again stresses that bank secrecy is not a major obstacle. Secrecy laws operate most stringently when they affect disclosure details of individual depositors' business. However, this is not regarded as critical in the supervisory process and secrecy laws do not normally impede the collection of aggregated liability data and information on the assets side of the balance sheet, which helps supervisors judge the risks in a bank's loan portfolio.

While bank supervisors are irked by criticism that they need to put their house in order, the more enlightened accept that they should have moved faster in perfecting their supervisory techniques for international banks.

In the U.S., for example, systematic monitoring of foreign lending by U.S. banks only started in 1971 when the Federal Reserve, the Comptroller of the Currency and the Federal Deposit Insurance Corporation set up the Interagency Country Exposure Review Committee with the object of setting guidelines and bringing more consistency into regulation in this area.

Regulators in other countries have been wrestling with the same problem. They have argued strongly for banks to make adequate provisions to reflect the decline in the value of assets in their balance sheets but have been unsure of the degree of guidance they should give on the level of provisions they would like to see. The Bank of England in particular has been anxious not to be seen to be telling banks what to do in respect of provisions. It does not want to take any action which deprives bank managements of their responsibility as the prime judges of the quality of assets in their book.

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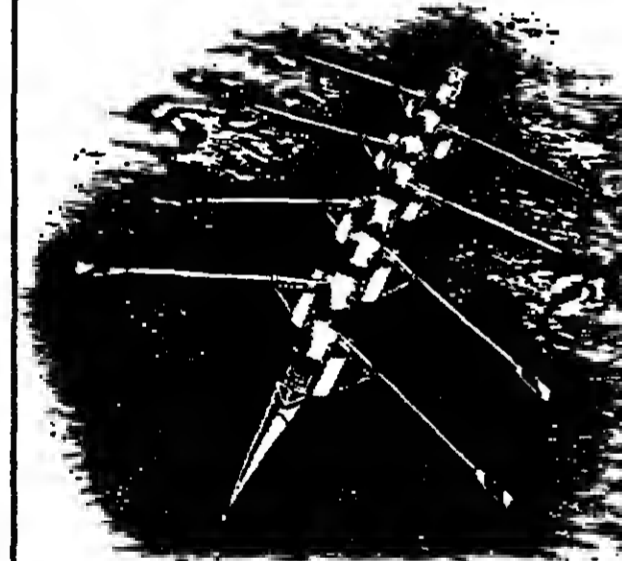
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## INTERNATIONAL CAPITAL MARKETS VIII

### Closer look at degree of involvement

#### BIS BANKS (\$=bn)

	Assets	Liabilities	Capital
Bahamas	79.3	79.3	0.0
Cayman Isles	49.7	49.7	0.0
Singapore	27.5	27.5	0.0
Hong Kong	26.9	26.9	0.0
Panama	14.2	14.2	0.0
Neth. Antilles	9.4	9.4	0.0
Bermuda	9.1	9.1	0.0
Lebanon	6.4	6.4	0.0
Liberia	2.5	2.5	0.0
Other West Indies	0.7	0.7	0.0
Barbados	0.1	0.1	0.0
Vanuatu	—	—	0.0

The BIS reporting area covers Austria, Belgium, Luxembourg, France, Italy, Japan, Netherlands, Ireland, Sweden, Switzerland, UK, U.S., West Germany plus the foreign branches of U.S. banks in the Bahamas, Cayman Isles, Panama, Lebanon, Hong Kong and Singapore.

which is particularly interesting since the Japanese banks do not have large Caribbean branches from which the business could be easily transferred. By September 1982 U.S. banks' IBFs had \$56bn in loans to unrelated parties, while Japanese banks' IBFs had \$38bn.

However, the IBFs have not yet been particularly successful in attracting new sources of international funds. They are banned from competing in the domestic market and have therefore had to compete with the existing pool of Euro-market funds. As a group the IBFs raise three-quarters of their deposits on the inter-bank market and place between a half and two-thirds of their funds back into the market.

The attraction of doing offshore banking business through New York is that it can offer top quality banking expertise without the inconvenience of doing business in more isolated locations. On the other hand costs are high, the IBFs cannot offer a full range of banking services and some depositors are nervous about placing funds in IBFs on the grounds of secrecy and political risk. The freezing of Iranian assets in 1979 and America's Freedom of Information Act provisions may well deter some potential customers.

For these reasons London bankers remain relatively relaxed about the threat to their business from the IBFs. The depth of the London-based Euro-market, the proximity of major customers in Europe and the Middle East, flexible regulatory environment and a favourable time zone means that London retains many advantages.

THE PAST year has been a testing time for the world's offshore banking centres. The emergence of New York's International Banking Facilities (IBFs) has begun to siphon off some of their traditional business, while uncertainties in the international banking arena have made some banks nervous about their reliance on offshore operations.

For the first time for several years international banks have been looking more closely at their involvement in offshore banking centres and the potential risk they face if difficulties arise.

Some bankers fear that the network of offshore banking centres which has emerged over the last decade and now controls over \$250bn of funds is a major Achilles heel in the international banking system. The absence of reserve requirements and strict supervision in many centres is viewed with concern in some quarters.

As the international banking problems have mounted over the past year, depositors appear to have been requiring higher rates for funds deposited in offshore centres even when the banks concerned were all part of the same group. While the offshore branch of a major international bank may have an undoubted prestige, depositors have been looking increasingly closely at questions such as the parent bank's responsibilities to meet the obligations of its branch if it cannot transfer

the responsibility of banking supervisors from major industrialised countries and the offshore centre is no more than a convenient staging post for Euro-market funds as they are shipped around the world. These days the important offshore centres only issue banking licences to major international banks, so obviating the need for maintaining large supervisory staffs of their own.

In addition, the Offshore Supervisors Group set up at the suggestion of the Basic Committee of banking supervisors, has led to significant improvements in the level of co-operation on supervisory matters between offshore centres. They now exchange information on matters of general interest and

Nevertheless, offshore centres

do compete with each other and this means that there is always a danger that if one centre is too rigorous in its banking regulations, banks may be encouraged to move off to a laxer centre. As revenues from financial activities are often an important element in the budget of an offshore centre these fears are understandable.

Competition for business among the major offshore centres is fierce. This is partly because the Euro-markets are not growing as fast as they were in the halcyon days of the 1970s and also because major financial centres such as New York and probably Tokyo seem intent on taking a share of the offshore market.

New York in particular is having an impact on the Caribbean centres of the Bahamas and Cayman Isles. It is just over a year since the first IBFs were opened and their initial growth has been faster than many expected.

By last September a total of 176 IBFs had been opened in New York, with 70 in California, 60 in Florida, 29 in Illinois and 19 in Texas. More than half of the new offshore units are being established by foreign banks.

The IBFs appear to be paying the same rates of interest as other offshore operations in the Bahamas and London and the maturity structure of their inter-bank activity is similar to that conducted elsewhere in the Euro-market.

Mr Julian Walsley, a foreign exchange expert working for Barclays Bank International in New York, says that the initial impact of the IBFs on London has not been large but this is not the case with the Caribbean centres.

In an article in the February 1983 issue of The Banker, Mr Walsley reports that deposits placed by foreign residents with Caribbean branches of U.S. banks fell by 40 per cent between November 1981 and July 1982. The fall in placements with London branches was less, although still significant, at 11 per cent. In both cases placements by U.S. residents continued to rise, almost offsetting the fall in placements.

Mr Walsley also notes that Japanese banks have been prominent in shifting business into their New York IBFs—

#### EXPORT CREDITS CONSENSUS INTEREST RATES

Borrowing country	Criteria	Length of loan (years)	Interest rate (%)	Medium-term credit (years)	Minimum cash payment (%)
Category 1	GNP per capita \$4,000 (1979)	2-5	12.15	12.4	5
Category 2	Not in categories 1 or 3	5-10	10.85	11.35	8.5
Category 3	GNP per capita under \$224 (1979)	10-15	10	10	15

† 8.5 years exceptionally.

### More cautious view of risk cover

THE WEARISOME round of annual negotiations on export credit interest rates and leading conditions has started again in the hope of reaching a new agreement at a two-day meeting to be held in Paris at the end of April.

The present Arrangement on Guidelines for Officially Supported Export Credit, better known as the OECD Consensus, expires on April 30. Automatically this throws the 22 nations into talks which seek to bridge a gap between those like the U.S. which are traditionally opposed to subsidisation and those like France and Italy which accept subsidies as a normal distortion of the pattern of trade.

The present pattern of Consensus interest rates ranges from 10 per cent for the relatively poor countries through 10.85 to 11.35 per cent for intermediate countries to 12.15 to 12.4 per cent for the relatively rich borrowers.

But over the last year, conditions have changed. Possibly this will make an arrangement easier to reach this year.

In the first place, commercial interest rates have tended to fall, although there is still a sharp disparity between French and Italian market rates and the Consensus. But in the British case, reference rates for fixed rate export finance since last summer have been closely aligned with commercial interest rates, at least for relatively rich borrowers. Export-import Bank of the U.S. rates have been pitched on the Consensus figures.

Second, the cost to national treasuries of subsidisation is appearing increasingly burdensome when it is seen not as an isolated expense but in relation to the costs being faced by the export insurance agencies for non-payment or delayed payment by customers in the developing countries.

There could be a tendency to minimise the subsidy element arising through the support of lending at rates lower than those of the market by readier agreement to ensure that Consensus rates more faithfully reflect those of commercial lending.

This is by no means certain. The views of treasuries do not necessarily predominate when support for exporters can be equated with the provision of jobs.

Nevertheless, the export insurance agencies are coming under increasing pressure. Hermes of West Germany faced in 1982 a 21 per cent increase in pay-

ments to exporters hurt by the non-payment of trade debts or through debt reschedulings to DM 930m (\$381m). Coface of France was expecting to pay out in 1982 FF 5bn (\$725m)—a 25 per cent increase over 1981—as a result of customer defaults on contract payments. In the UK, the Export Credits Guarantee Department met record claims of £303m in 1981-82 and £200m in the first six months of the current year.

The upshot of all this is a more cautious view of the risks the export insurance agencies are prepared to cover at a time when banks themselves are reappraising their exposure in the major borrowing countries of the developing world.

The combination of lower interest rates and financially untested experiences in the Third World suggests that the background conditions are more conducive for change in the Consensus than at any time in the last three years. But what sort of change?

The future shape of an agreement has not yet emerged, but the U.S. has laid down its demands and it seems likely that they will provide a focus for the developing talks.

With the aim of diminishing the use of subsidies, the U.S. is likely to push for a limit to the amount of credit support offered to countries in the relatively rich category of borrowers.

The drift of opinion in the EEC, apparently led by France, is for a reduction in the pattern of Consensus interest rates. But the Commission acknowledges, and there seems to be some sympathy with its view in London, that it will not be possible to negotiate this with the U.S. without conceding a mechanism which allows for semi-automatic changes in the interest rates.

Such a mechanism could be seen as a half-way position between the U.S. desire for each country to have export credit rates reflecting its own commercial market conditions and previous EEC insistence on a fixed pattern of Consensus rates.

This points to a revival of the idea called the "uniform moving matrix."

The main advantage of such a scheme would be to keep the Consensus rates from straying too far away from market rates as they did in 1981-82, leading to very heavy subsidisation in the bridging of the gap between the two from countries like the UK. In the 1981-82 financial year, the Treasury spent £587m on interest rate support for fixed rate export finance.

Although some bankers doubt the practicality of such a scheme, the linking of a mechanism for future change in the Consensus rates with a downward move in the interest charges may prove to be the ground around which a deal will be worked out.

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